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ABSTRACT

The transcript of joint hearings on college assistance legislation before the Senate Committee on Human Resources and the House Committee on Education and Labor is presented. The hearings concern amendment of the Higher Education Act of 1965 to improve the Basic Educational Opportunity Grant (BEOG) program. Witnesses included Joseph A. Califano, Jr., Ernest Boyer, and Michael O'Keefe. Discussion focused on providing or altering aid programs to compensate middle-income students. A majority of the aid proposed would be channeled through the BEOG program. Increased funding is also discussed for the Supplemental Grants and College Work-Study programs. The increased funding would be aimed at families with incomes between $8,000 and $16,000. It is estimated that in 1979 this would mean an eligible pool of 640,000 students, more than doubling the number of awards in federal student assistance programs from 3.2 million in 1978 to more than 7 million in 1979. Also discussed are tuition tax credits, aid to parochial and private schools, elementary and secondary schools, loan defaults, and state insured loan agencies. Several alternative methods of delivering higher education assistance to middle income students are also examined. Also included is information on states that are starting their own student loan agencies. (SF)

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COLLEGE OPPORTUNITY ACT OF 1978

JOINT HEARING

BEFORE THE

COMMITTEE ON HUMAN RESOURCES
UNITED STATES SENATE

AND THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2539

TO AMEND THE HIGHER EDUCATION ACT OF 1965 TO IMPROVE THE BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM AND FOR OTHER PURPOSES

AND RELATED BILLS

FEBRUARY 9, 1978

Printed for the use of the Committee on Human Resources and the House Committee on Education and Labor

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COLLEGE OPPORTUNITY ACT OF 1978

THURSDAY, FEBRUARY 9, 1978

U.S. SENATE,
COMMITTEE ON HUMAN RESOURCES, AND
HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR
Washington, D.C.

The committees met in joint session at 10:05 a.m., in room 1202, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman, Senate Committee on Human Resources), and Hon. Carl D. Perkins (chairman, House Committee on Education and Labor), presiding.

Present: Senators Williams, Pell, Eagleton, Riegle, Javits, and Stafford.

Also present: Representatives Perkins, Ford, Brademas, Biaggi, Buchanan, Shuster, and Le Fante.

Senator WILLIAMS. We will come to order, please.

We are pleased to open this joint hearing, our initial hearing on college assistance for middle-income families. There has been no more pressing issue of interest to citizens in all walks of life than their concern to provide higher education opportunities for their children.

While these committees and the Congress have achieved significant gains in providing financial assistance to Americans for educational purposes since the enactment of the Higher Education Act in 1965, this hearing marks a new departure. That departure is underpinned by the policy that Americans who want and who are able to quality for postsecondary education shall not be deprived of that opportunity no matter what their financial status. This is a commitment we will pursue in the days ahead. It is a commitment to families of all income brackets.

The first step in implementing this pledge is to examine the alternatives before the Congress in order to arrive at the best possible college opportunity grants program for middle-income Americans.

The committees which have legislative jurisdiction for this subject have joined together on this matter which will have immediate, enduring bearing on the Nation. The Committee on Human Resources in the Senate is joined in this undertaking by the House Education and Labor Committee. We are very pleased to sit again with the chairman of the Education and Labor Committee, Carl Perkins. It is most fitting that the committees of the Senate and House of Representatives initiate the deliberations on this matter together.

[The text of S. 2539 and S. 2473 follows:]

95TH CONGRESS
2D SESSION

S. 2539

IN THE SENATE OF THE UNITED STATES

FEBRUARY 10 (legislative day, FEBRUARY 6), 1978

Mr. PELL (for himself, Mr. WILLIAMS, Mr. JAVITS, and Mr. STAFFORD) introduced the following bill; which was read twice and referred to the Committee on Human Resources

A BILL

To amend the Higher Education Act of 1965 to improve the basic educational opportunity grants program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "College Opportunity Act of 1978".

SEC. 2. (a) Section 411(a)(3)(B) of the Higher Education Act of 1965 is amended by adding at the end thereof the following new division:

"(iv) Beginning with the academic year 1979–1980 and thereafter, in determining the expected family con-

tribution under this subparagraph no rate in excess of 14 per centum shall be applied to parental discretionary income.".

(b) Section 411(b)(5) of that Act is amended by striking out "$237,400,000" in subparagraph (B) and inserting in lieu thereof "$600,000,000".

SEC. 3. (a) Section 428(a)(2)(A) of that Act is amended to read as follows:

"(2)(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which he is in attendance in good standing (as determined by such institution), which—

"(i) sets forth such student's estimated cost of attendance, and

"(ii) sets forth such student's estimated financial assistance.".

(b) Section 428(a)(2)(B) of that Act is repealed.

(c) Subparagraphs (C) and (D) of section 428(a)(2) of that Act, and all cross references thereto, are redesignated as subparagraphs (B) and (C), respectively.

(d) Section 428(a)(2)(B) of that Act (as redesignated by subsection (c) of this section) is amended by striking out the semicolon at the end of clause (iii) and

inserting in lieu thereof a period, and by striking out clause (iv) of such section.

(e) Section 428(a)(9) of that Act is repealed.

(f) Section 428(b)(1)(A)(i) of that Act is amended by striking out "section 428(a)(2)(C)(i)" and inserting in lieu thereof "section 428(a)(2)(B)(i)".

95TH CONGRESS
2D SESSION

S. 2473

IN THE SENATE OF THE UNITED STATES

FEBRUARY 1 (legislative day, JANUARY 30), 1978

Mr. PELL (for himself, Mr. WILLIAMS, Mr. JAVITS, and Mr. STAFFORD) introduced the following bill; which was read twice and referred to the Committee on Human Resources

A BILL

To amend the Higher Education Act of 1965 to improve the basic educational opportunity grants program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "College Opportunity Act of 1978".

SEC. 2. Section 411 (a) (3) (B) of the Higher Education Act of 1965 is amended by adding at the end thereof the following new division:

"(iv) Beginning with the academic year 1979–1980 and thereafter, in determining the expected family contribution under this subparagraph no rate in excess of 10.5 per centum shall be applied to parental discretionary income.".

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Senator WILLIAMS. I look forward to continued collaboration with Chairman Perkins and the House Committee. I know the members of both bodies share the compelling need to expedite the college assistance legislation.

Senator Pell, chairman of our Subcommittee on Education, is known to thousands as an advocate and initiator of college assistance for our citizens. He is a revered leader in education policy. He has introduced a bill, and I have joined him. I know there is a bill on the House side. We this morning will receive a message from the Secretary of HEW, Secretary Califano, and the administration's ideas will here be presented. A bill will be introduced, and we will have before us all we need to expeditiously consider the subject matter.

It will, after this joint hearing on opening day, then go to our respective subcommittees for further hearings. We should hear from the cochairman of this committee, Congressman Carl Perkins. I am sure those who have introduced legislation will want to have opening words also.

Mr. PERKINS. Thank you, Senator Williams.

I want to welcome Secretary Califano. I would be remiss if I did not at the outset pay the highest compliment to you for your leadership in focusing attention on the needs of working class families who are struggling to meet the cost of higher education. You have done an outstanding job.

I want to pay tribute also to my colleagues from the House side who have been deeply involved: the chairman of our Subcommittee on Postsecondary Education, Bill Ford, who has done a great job as chairman of this subcommittee; John Brademas and Frank Thompson, who have both been active in higher education and all areas of education; and Congressman Biaggi.

Likewise, I want to compliment the distinguished chairman of the Human Resources Committee of the Senate and the chairman of the Senate Subcommittee on Education. But for these two gentlemen, in my honest judgment, we would have never enacted the Pell grants back in 1972. We had to run that conference day and night—one of the most lengthy conferences in the history of this Congress—in order to establish the Pell grants.

I think that the administration's proposal quite properly places the bulk of the increase in Pell grants. It was because of Senator Pell's leadership that the BEOG program was enacted. That program has proven to be most effective in aiding financially needy students.

Now, we are going to build on that success. It is a well-established principle that financial need is the proper basis for allocating Federal moneys for postsecondary education.

Since the establishment of the first student aid program of 1958, the financial need of students has been the fundamental criteria. In 1972, when we designed the Basic Educational Opportunity Grant program, we intended that it reach all financially needy college students and their parents. Unfortunately, however, ultraconservative administration of the program in combination with spiraling college costs have left many needy and deserving students from working-class families—

particularly from families owning small farms and businesses—without the resources to meet college expenses. The result has been that middle-income enrollment rates have been declining sharply in recent years.

Middle-income youth have been caught between rising tuition and inability of parents to meet these higher costs. They have been forced to make up a larger portion of their college costs than youth of either low- or high-income families. In response, there have been numerous calls for tax credits or tax deductions for postsecondary education expenses.

In effect, we are being asked to ignore need as the basis for distributing Federal moneys. The sums involved are considerable with the estimates ranging in billions of dollars. Because financial need is not considered, aid is not targeted. A little bit is promised for everyone regardless of income and regardless of the cost which must be met. Lower-middle-income and middle-income families are today faced with educational costs in the thousands of dollars and the much-heralded $250 tax credit would make very little difference.

What is being proposed by the administration is a balanced program which will allow the concentration of moneys and for continuation of need as the criteria for allocating moneys.

Under the package proposal, a $250 floor is provided to families with incomes of $25,000 or less. The floor is $250, but for those families who have greater need, those in the $10,000 to $20,000 category, assistance will be provided in amounts that can and will make the difference in whether a student does or does not go to college.

Most of the increase will be channeled through an expanded BOG program which has proven to be the most effective and equitable way of providing student aid. The number of BOG recipients will increase from 2 million to 5 million.

In addition, we will be proposing increased funding for the college-administered programs of Supplemental Grants and Work-Study. More importantly, aid for middle-income students will be provided without detracting from the assistance now being provided low-income students. To the contrary, unlike the tax proposals, the package proposal we advocate provides additional funds downward instead of upward into the upper-income brackets.

For families above the $25,000 income bracket, there clearly is need also, but of a different type. Students from families in the upper middle-income category are today unable to produce the necessary cash to meet current college bills. The need for cash can be met through the less expensive mechanism of the Insured Loan program, and we are proposing amendments to that program which will make loans readily available to students from families with incomes of up to $40,000.

I am confident that this well-designed package will be enthusiastically supported by the entire educational community. I am confident also that it will be warmly received by the Congress and approved without delay.

This package provides a solid, well-balanced approach to helping middle-income families meet the costs of higher education. And the Carter administration is to be highly commended for committing the $1.2 billion which will be necessary to implement the package.

The only concern I have, though, is that the administration must not lose sight of the fact that tax credits are being proposed not only for higher education but also for elementary and secondary education. And I would hope that the administration, in responding to those proposals, will make the same kind of commitment to expanding elementary and secondary programs focused on the disadvantaged that it is making today in the area of higher education.

Mr. Chairman, this is all I have to say until we get to questioning the witnesses.

I want to thank you again for chairing this hearing today and for the great contributions you have made, not only in the higher education area, but in all levels of education in the past.

Senator WILLIAMS. You are very gracious indeed, Congressman Perkins. I appreciate that. We both know that our Members have been most creative here, those who have introduced legislation, and Senator Pell has certainly started the framework that will be used in this effort concerning middle-income families.

Senator Pell.

Senator PELL. Thank you, Chairman Williams, and Chairman Perkins, for your very nice words.

The purpose of today's hearing is to see how we can help middle-income America, which pays its taxes and does the work and gets scant thanks for it—and is suffering at this time.

I think that we all have perhaps somewhat different ideas in approaches. The administration has one thought; the House, as I understand it, has a thought concerning supplemental grants. I think, in my own case, the basic grants should be reexamined and the formula should be changed. I am willing to accept the same total amount of money that is proposed by the President to be spent under his bill. I look forward to questions and answers when we can develop this information further.

Mr. PERKINS. Mr. Ford is recognized for a statement.

Mr. FORD. Thank you, Mr. Chairman, and Chairman Williams. It is a pleasure to be here.

I am anticipating the testimony of Secretary Califano. He is accompanied, I believe, by Commissioner Boyer. Yesterday was a pretty exciting day for anyone who cares about the future of education in this country. People all across the country had an opportunity to turn on their television set and see their President propose the largest single initiative to provide access to college education for middle-income families and their offspring in this country since enactment of the GI bill at the end of World War II. It is quite apparent that many people across the country have caught the excitement of this kind of initiative. It is long overdue. Many of us have talked for years about the need to make that the next big venture of the Federal Government in meeting its obligation of education.

But it took the initiative of President Carter and the leadership of Secretary Califano to finally take yesterday's very bold step and make it now believable on the Hill that we can very soon succeed in doing something that many people had thought was still far off in the future of education.

The shape of education and, in fact, the shape of this country for decades to come, will reflect very directly the impact of what we do as a result of the challenge the President presented to us yesterday.

Chairman Williams, Chairman Perkins, and Chairman Pell, I hope we can all work together to move the administration's legislation as rapidly as possible so that it translates from talk about the future into practice in the future for higher education.

Thank you.

Senator WILLIAMS. Ranking member of this Senate Human Resource Committee, Senator Javits, who, as we all know, has been vitaliy interested in all of our educational programs over the last decade or more.

Senator JAVITS. Mr. Chairman, our ranking member on the Education Subcommittee is Senator Stafford, who is here with me, and he has yielded to me for the purpose of making a brief statement on the part of the minority.

The minority will not necessarily be unanimous on this issue, but I for one, and I believe other members of the minority welcome the initiative which produces an alternative to the tax deduction for college tuition.

I have consistently voted against it because I believe it would impair our ability to reward those who would permit, notwithstanding their economic status, seek and deserve higher education. That has been the position of Senator Pell, my colleague, who is chairman of the subcommittee. He came up with an alternative which both the chairman and I promptly embraced on February 1. We know that these activities have to be collaborative. We have worked out in other fields, namely in the labor field and in the manpower field, problems with the administration, so that all knew when a bill was passed that it would be worked out and that the President would sign it.

I like the total direction we are taking. I think the President's initiative and that of Secretary Califano will be extremely helpful and constructive. I think we have to give all credit to those—to our members, like Senator Pell, who have felt this way and have worked along this line, as well as Congressman Perkins' committee and his members who have worked along the same line. I think we are finally at a point where we have an idea and a policy whose time has come.

I must say it is a welcome relief to me, and I think, to many others in the Senate that the pressure which has come from the tax deductible idea, which is very simplistic but very wrong, has mounted to the point where it was practically irresistible. I think you are here just in the knick of time, and it will be our duty creatively to see that this alternative becomes a law as it deserves to be.

I thank you very much, Mr. Chairman.

Mr. PERKINS. We will hear now from Mr. Brademas, a member of the Subcommittee on Postsecondary Education. Mr. Brademas was a member of that famous conference of 1972 between the House and the Senate. I do not know of any individual who contributed more than Congressman Brademas.

We want to hear from you, Mr. Brademas.

Mr. BRADEMAS. Thank you, Mr. Chairman. I will be very brief.

Let me just make three observations. I think that the legislation under consideration and the fact that it is supported strongly by Democrats and Republicans in Congress reflects the history of Federal assistance to higher education, namely that there has been strong bipartisan support for such legislation.

The legislation, however, marks a significant change from past history in that the White House and Congress are now working together. In the preceding 8 years in the last administrations, there was strong hostility in the White House to the efforts of both Democrats and Republicans in Congress to provide adequate support to college students and to the universities that they attend.

So I think that is the most significant historical development that characterizes this legislation.

Obviously, the second point is that we are now responding in this legislation to the needs of middle-income families without doing violence or damage to the needs of low-income families who want to send their sons and daughters to colleges or universities.

A third point I would make, Mr. Chairman, is that this legislation, in my view, holds out hope for maintaining, and indeed, strengthening the existing pluralism of American higher education, namely public as well as private colleges and universities. So I am very delighted to see the leadership of President Carter and Secretary Califano, Senator Pell and Congressman Ford have given. I believe this is a very happy day for the future of our country.

Senator Williams. I am sure you are getting a lot of confidence, Mr. Secretary, in all of this early support. You are not going to get out of character, are you, Senator Riegle?

Senator RIEGLE. No; I am not. I, like Congressman Brademas, will be quite brief.

Let me first congratulate Senator Pell and others here in the room who have really, I think, given the early leadership to bringing this issue to a head. I also want to congratulate the administration. I think the President, by his initiative at this time, and your initiative, Secretary Califano, show a sensitivity and awareness of this problem that I think is encouraging, not just in this area, but I think it spreads out wider than that.

Our young people that can and need to attend college are very much in need. Their families are in need, and this approach, I think, is an exceptionally sound approach, It certainly is much better than the tax credit idea that others have been advancing.

I think we may have to think very carefully how we scale the program, however. I think some of the suggestions Senator Pell and others have made about scaling of the dollars makes more sense to me, but that is something we can thrash out. I think the basic thrust of what you have brought today is really right on the mark in terms of the concept and the approach.

With that I congratulate you and I am prepared to help you get this done.

Mr. PERKINS. Mr. Biaggi, who has been very active on education legislation.

Mr. BIAGGI. Thank you, Mr. Chairman.

Secretary Califano, I was privileged to be at the White House yesterday when the announcement was made. I thought it was a very significant step in the educational field, especially in relation to responding to the needs of the middle class. I thought there might be some degree of unanimity across the face of the Nation. But this morning I learned of opposition from a significant community now in the Nation, and I think it is something that the Secretary should be made aware of. I think it requires some clarification so that we can proceed with the kind of unanimity which we anticipated at the outset.

I received a call from Monsignor Donald J. Pryor, director of education, Archdiocese of New York. He issued a rather harsh statement. I think one of your assistants has a copy, I will read it to you, It goes as follows:

> The Catholic Community is deeply shocked by President Carter's reversal of his open promise to assist tuition paying parents of elementary and high school students. While he was running for office, on October 19, 1976, Mr. Carter committed himself emphatically to such aid when he said, "Therefore I am firmly committed to finding constitutionally accepted methods of providing aid to parents whose children attend parochial schools. I am firmly committed to seeing that children attending parochial schools benefit fully from Federal education programs." Now that he has achieved office in his first important message on education, he has ignored that pledge.
>
> President Carter also promised that as President he would never lie. Millions of parents relied on both his promises and voted for him because of them. Where is the truth now, in his campaign pledge or his present message.

That is all, Mr. Chairman.

Senator WILLIAMS. Senator Stafford.

Senator STAFFORD. Thank you very much, Mr Chairman. I shall be very brief.

Educational programs have always been very important in my opinion and have the highest priority for domestic spending in any. decisions that I have made as a Member of the House or the Senate. I think it is well that bipartisan support of education has already been noted this morning, because that is important, too. That may have been overlooked by the White House in the launching ceremonies yesterday. But I am glad to see that we are here from both Houses and both parties today.

I think the case for these hearings has been well made, and I look forward to the testimony of Secretary Califano.

Mr. PERKINS. I have always followed the policy on the House side Senator Williams is now following, rotating between majority and minority. I am going to call on Mr. Buchanan who is minority ranking member in the absence of Mr. Quie from Minnesota.

Go ahead, Mr. Buchanan.

Mr. BUCHANAN. Thank you. Mr. Chairman.

You, the President and I are all good Baptists, and believe in repentance. You need none this morning. I do not know how many prayer meetings were required or for whom or with whom or by what processes the President has come to this kind of initiative, but I certainly welcome it. It is long past due.

The ranking Republican on our full committee, Governor Quie of Minnesota, and I, as ranking on Bill Ford's subcommittee, are cosponsors of this legislation. I am just delighted to see this initiative from the Secretary. I would like to join in complimenting my colleagues, Bill Ford and John Brademas, for their leadership in this area.

Thank you.

Senator WILLIAMS. Senator Eagleton.

Senator EAGLETON. Thank you, Mr. Chairman.

I will ask Secretary Califano at the appropriate time for any additional comments he might have beyond the present bill relating to elementary and secondary education, specifically any comments he might have on the Packwood-Moynihan bill that includes both higher education and elementary and secondary, and even more particularly,

Federal legislation in the elementary and secondary area as it would be considered in light of the Nyquist case.

Mr. PERKINS. Mr. Le Fante has also been active in education legislation.

Mr. LE FANTE. Thank you, Mr. Chairman.

I agree with everything that has been said here this morning. I for one can tell you, Mr. Secretary, that when I was campaigning—and I represent a middle income district—this was the number one request of my constituents. As a result, one of the very first bills I introduced in the House was a bill to grant tuition relief to this class. As the saying goes, it is sorely needed, and I just hope, Mr. Secretary, the spirit of cooperation that has been displayed here this morning will become contagious in both Houses and we will see very speedy action with regard to this legislation. I just hope that it can spread into other areas because we are one of the very few nations in existence that does have a middle class society. I think you and everyone else who serves or purports to serve should dedicate themselves to preserving and aiding the middle class.

I hope this is a first step of many things to come.

Mr. PERKINS. Mr. Shuster.

Mr. SHUSTER. Thank you, Mr. Chairman.

After hearing 12 members speak glowingly in favor of this proposal, permit me to be one small voice with the temerity to raise the question of how we are going to pay for it. We are talking about $1.2 billion in new spending approximately. This will add to the deficit.

The President told the Nation not too many weeks ago there would be no new major programs. I have heard this described as the most significant new educational program since the GI bill. I am concerned about the middle class, very much so, but I do not think the middle class wants a new form of welfare, which is what I believe this is. I think the middle class wants lower taxes. The middle class wants less Government. The middle class wants to get Government off our backs. I find a great incongruity, I confess, in what appears to be Government first laying on taxes and burdens and inflation and regulation and control, on the lives of the middle class, and now Government coming along and saying we are going to try to ease the burden.

The question is who put the burden there in the first place?

For that reason, I have great difficulty with this proposal.

Thank you.

Senator WILLIAMS. With that one dissent, we now turn to the individual who is in the lead in conserving and developing the human resources of our Nation. We have admiration for all you are doing and, certainly, as we have all said, save one, we are grateful indeed.

Mr. Secretary, the forum is now yours.

STATEMENT OF HON. JOSEPH A. CALIFANO, JR., SECRETARY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY ERNEST BOYER, COMMISSIONER, OFFICE OF EDUCATION, AND MICHAEL O'KEEFE, DEPUTY ASSISTANT SECRETARY FOR PLANNING AND EVALUATION FOR EDUCATION

Secretary CALIFANO. Thank you very much, Chairman Williams, Chairman Perkins, Chairman Pell, Chairman Ford, members of the committees, let me, if I may, at the outset express the appreciation of the President who has asked me to begin my testimony by noting how

deeply he appreciates the fact that the House and the Senate have agreed to have joint hearings, something that you, Senator, called yesterday a very extraordinary step and a step that reflects the kind of cooperation and comity and working together that has characterized this proposal from the beginning between the White House and the administration and the leaders here on Capitol Hill. I bring that message, the President deeply feels it, and wanted me to transfer it to you and Chairman Perkins and the members of these committees.

Also at the outset I would like to note my own personal appreciation, Mr. Chairman, for all the work that you and Senator Pell have done in this area, for all the work Chairman Perkins, that you and Congressman Ford and Congressman Brademas and Congressman Thompson, who is not here, over the past several weeks have done in terms of trying to put together a proposal that makes sense and that will truly help the middle-class American who, as you have noted, do work, pay the taxes, and are so desperately pressed in terms of the higher education of their children.

You have given years and years of effort, with all of the members of this committee, to the higher education field. It is as a result of that tremendous effort that we are able to work with you and build yet another tremendous block on this array of programs that the Congress has enacted.

There would be no higher education statute in this country had it not been for the work over the past several years of the committees that are holding this hearing today. The American people should and do recognize that.

I would like, Mr. Chairman, to read most of my statement, outlining the program if I may.

Senator WILLIAMS. Please.

Secretary CALIFANO. Accompanying me, I should note, are Commissioner Boyer, the Commissioner of Education, and Michael O'Keefe, who is Deputy Assistant Secretary for Planning and Evaluation for Education in my own immediate office.

President Carter is committed to increasing student financial aid for middle-income families with children in college.

Toward this end, the administration is requesting a $1.46 billion package of grants, work study, and loans in fiscal year 1979 to provide additional student assistance within the framework of existing Federal programs. Of this total, $250 million was requested for these purposes in the President's budget, and the additional $1.21 billion request will come from the allowance for contingencies.

These proposals constitute an unprecedented increase in student aid programs for higher education from $3.8 billion in fiscal year 1978 to $5.2 billion in fiscal year 1979, a growth of almost 40 percent. It is, as Chairman Bill Ford said yesterday, "the biggest single infusion of funding for middle-income college students since the adoption of the GI bill at the end of World War II."

There should be no mistake that a President sits in the White House today who cares deeply about the quality of education in America, and cares deeply about the bedrock middle class of this country.

Moreover, if one considers the actual amount of grants, work, and loan funds that will be available to students as a result of these programs, the total is much greater—more than $6 billion in fiscal year 1979 will be available to help students in the higher education area.

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This higher amount takes into account State and institutional matching, relending from institutional revolving funds, and loan funds generated by the private sector for which the Federal budget pays only subsidy and default costs.

We are grateful for the advice and counsel which you and other education leaders in the Congress have given to us. With your support, I believe we can make this historic proposal a reality.

In the last decade, the costs of sending a son or daughter to college have risen sharply. Between 1967 and 1976, average college costs increased by 77 percent to levels so high that many middle income parents have real fears in America today that when the time comes they either will be unable to afford to give their children the benefits they received from a college education or will have to make extraordinary sacrifices to do so.

For poor families, the hope of having their children lifted out of poverty through the educational opportunities which they themselves may not have enjoyed is likewise threatened.

Today, average costs for tuition, room, and board at a private college are over $4,800 per year, a total of $19,200 for the 4 years required to obtain a bachelor's degree. At some colleges, these yearly costs have risen to $6,000 or $7,000 or even more. And it is not just costs at private schools which have skyrocketed. At many public universities today, a student can be expected to pay over $2,500 per year to cover education-related expenses.

For a family earning $25,000—the 90th percentile of income in this country—$5,000–$7,000 a year is obviously a great burden. It is, of course, an even greater burden for a family earning the median income of $15,000 per year—then such a cost becomes almost overwhelming. And if families have two or three children in postsecondary schools, higher education costs can be prohibitive without financial assistance.

The participation rate of the poor in postsecondary education has risen dramatically and is fast approaching that of middle-income families. We must continue and expand this commitment to students from poor families. But the time has also come to provide assistance to families who do not now receive benefits but who also need them.

We must now also recognize, as a matter of statute, that many middle-income families are finding the educational opportunities of their children limited by lack of financial resources. And we must act to ease the burden middle-income families bear in paying for higher education.

The proposal: To meet the urgent needs of middle-income families who must shoulder the costs of higher education, we propose the following measures, which will require new budget authority for fiscal 1979 or legislative changes or both.

In the basic educational opportunity grant program, a program which we affectionately and rightfully call the Pell grant program, which provides Federal assistance to students based on family income and the cost of college attendance, we will request an additional $1 billion over the $2.1 billion appropriated in fiscal 1978. With these funds, we will: Provide Pell grants to 3.1 million additional students, raising the total from 2.2 to 5.3 million awards;

Guarantee a $250 grant to 2.8 million students from families with an annual income of up to $25,000, including assistance to at least 2

million students in the $16,000 to $25,000 range who had not previously participated in the BEOG's program;

Increase the maximum grant for low-income students from $1,600 to $1,800 for families with income up to $7,500;

Increase the amount of the average grant by $200 to students in families with incomes between $8,000 and $16,000 (from $850 to $1,050).

Eliminate inequities in the treatment of self-supporting students, particularly those who have dependents.

Nearly $700 million of the $1 billion increase we will seek in the Pell grant program will be concentrated on families with annual incomes between $16,000 and $25,000. In the past, as you know, Pell grants have concentrated heavily on lower income families. This new money in Pell grants recognizes the past effort, and seeks to meet a new need.

In the college work/study program, which provides 80 percent of the salary for a student's part-time job, we will request an additional $165 million over the $435 million appropriated in fiscal 1978.

With these funds we will help provide work opportunities for as many as 280,000 new students to bring the program total to more than 1 million students. Of this 1 million, approximately 380,000 will be from families with incomes above $16,000 and more than two-thirds of the additional $165 million will benefit 180,000 new students in the over $16,000 category.

In the guaranteed student loan program, which guarantees loan repayments and subsidizes interest costs, we will request an additional $291 million over the $530 million appropriated in fiscal 1978. Through technical amendments we will address a major problem with the GSL program—the availability of capital—by making participation more attractive to banks. We will also make families with incomes up to approximately $45,000 eligible for an interest subsidy worth as much as $250 per year—the persent income ceiling is approximately $30,000.

In fiscal year 1979, these changes in the GSL program will support an estimated 403,000 new loans to students with family income over $16,000. In fiscal 1978, we estimate that more than 1 million students will have had loans, with about 300,000 loans going to students with family incomes above $16,000.

In fiscal year 1979, 640,000 students clearly in middle-class areas with incomes above $16,000 will be eligible for those loans.

With these steps in BEOG's, college, work/study, and the guaranteed student loan program, we estimate that the number of awards in Federal student assistance programs will more than double from approximately 3.2 million in fiscal 1978 to more than 7 million in fiscal 1979. Because some students receive awards under more than one program, we estimate that more than 5 million college students nationwide will receive financial assistance from the Federal Government in fiscal 1979, an increase of at least 2 million students over last year.

As you know, most of the Federal student assistance programs are up for reauthorization next year. At that time, we may wish to present more detailed changes not just in BEOGs and college work study, but also in other student assistance programs—supplemental educational opportunity grants, State student incentive grants and national direct student loans.

But we believe that the middle income problem is so urgent that we need to offer a solution that can secure swift congressional enactment. The President's proposals will go a long way toward easing the toll that the costs of higher education now exact from America's lower- and middle-income families. And they will provide an excellent base upon which to build as Congress and the administration consider reauthorization next year.

Mr. Chairman, I would like to briefly discuss the tuition tax credit issue.

President Carter's balanced grant, loan, and work study program is a far fairer and far more sensible way to provide financial assistance to middle-income families with heavy college expenses than, as some have proposed, through a tuition tax credit.

Tuition tax credits, to put it bluntly, make neither educational nor fiscal sense.

Tuition tax credits indiscriminately provide financial assistance regardless of either family income or the actual costs of higher education. We should not provide direct relief for educational costs to the very rich; rather we should base Federal financial assistance on real need to the extent possible.

Tuition tax credits can be inordinately expensive. The postsecondary element of one proposal could cost as much as approximately $4.4 billion.

Tuition tax credits will unnecessarily fragment educational policy among different congressional committees.

Tuition tax credits do not meet the needs of some families, especially those with higher than the median income, the group above $15,000 who would prefer loans to grants in order to spread a larger share of educational costs over time rather than receive a smaller financial boost in the short term.

Tuition tax credits are a blunt instrument which make it difficult to base educational financing decisions on the changing circumstances of college attendance and college costs, family income.

The student assistance package proposed by the President is the best method of meeting the legitimate needs of middle-income families who bear the costs of higher education, while at the same time providing needed assistance to low-income families who rely largely or wholly on student aid to defray college expenses.

Finally, I would underscore that if Congress decides to add a tuition tax credit to the administration's proposed tax package, then the President will oppose substantial increases in appropriations for Federal student assistance programs. He feels strongly—as I know you do too—that Congress must choose between tuition tax credits and the historic increases in Federal student assitance that the Administration is proposing. This Nation cannot afford both.

With the joint leadership of Congress and the administration, we can make great strides in solving a problem that has bedeviled the middle income families of America. The proposals announced by the President—and supported in broad outline by you, the education leadership of the Congress—promise to relieve the burdens borne by those parents with children in institutions of higher learning.

This goal is one that has widespread support across this Nation. I hope that Congress can act swiftly to enact the President's proposals.

Thank you, Mr. Chairman.

I have a chart there. Would you like for me to explain it now? It illustrates how the Pell Grant portion of the President's program would work.

Senator WILLIAMS. Surely.

Secretary CALIFANO. The present fiscal 1978 limit on the maximum grant that an individual can receive is $1,600, as you can see. That maximum grant is presently available for individuals in families out to the $6,300 annual income range. Then this drops down on this curve with the $50 minimum available for individuals roughly between $13,000 and $14,000. Generally, an individual's families with incomes above $13,000 to $14,000 are not eligible for this program today. Under the President's proposal and the legislation introduced yesterday in the House by Congressman Ford and Congressman Brademas, Perkins, and Quie and others, the maximum grant for an individual in a family would go to $1,080. That is as high as present authorization permits. That grant would be available for families with annual incomes out to $7,500.

Then this would decline, as you can see, down to the point of about $16,100, where a grant of $250 would be available through the $25,000 range. At the $25,000 annual income range the family would not be available for a BEOG's grant. These families, it is our strong feeling, will be helped by the grant, but they need as well the additional loan funds that we are proposing, and the changes in the loan program that we are proposing, because their problem is often a liquidity problem.

Senator WILLIAMS. Thank you, Mr. Secretary.

The program as you described it has been introduced in the House and of course has not been or will be considered for introduction here in the Senate and certainly addresses itself in a most comprehensive way to the financial needs of all that we are directing our attention to, lower and middle income families of this country. In arriving at the grants program for students I am left with some reservation that the approaches might be so thin that those who are hardest pressed will not realize the amount of grant that will make them truly a candidate for college. It flattens out from $16,000, as I understand it, to $25,000, a flat $250; and the other program has a graduation, and I know Senator Pell will want to discuss this with you in some depth.

So just with that bit of a caveat on that one aspect, I will turn to our subcommittee chairman, the creator of the BOEG program, Senator Pell.

Senator PELL. Thank you very much, Mr. Chairman.

One of my major concerns with the tax credit proposal is that it would encourage colleges to increase their tuitions by a flat $250, thereby providing no real relief to middle income taxpayers. Your present proposal for a flat $250 grant in the $15,000 to $25,000 income range would have, I would think, the same effect to a considerable degree.

Secretary CALIFANO. Mr. Chairman, we do not think that. There will be testimony from several college presidents this afternoon before the House subcommittee, I think 5 or 6 are testifying, and they can deal with that issue directly. I do not think that. I might elaborate on why we came up with this kind of proposal. There were several reasons. The two most important, I suppose, or one, the individuals in that income range in our judgment are much more in need of loans.

the increases we are proposing in the loan program, and the second problem is that $1,800 maximum obviously over a time will have to rise, as Congress has mandated rises in it in the past.

If you go with the President's program the way it is, for every $100 increase in the $1,800 maximum limit for the poor families, you will have an increase of $100 million in the program. If you take that line straight down in a diagonal way, you will have a whopping half billion dollar increase in the program every time you want to give additional $100 benefit to the poorest people, and we think that would hurt the poorer families.

We have tried to devise a program that helps the middle income families without hurting poor families.

Those are the two central reasons why we drew the line that way instead of straight diagonal line.

Senator PELL. You do not feel a flat $250 increase will be a temptation to use just that figure by many boards of trustees who are thinking about a raise in tuition, and would say, well, maybe $250, maybe $125, $150?

Secretary CALIFANO. I would think no, Senator, to be honest with you. I think if there be a temptation for a college president to raise the tuition, it would have been the automatic mandated increases the Congress has at the maximum end more than what is down at the minimum end, namely going from $1,400 to $1,600 to $1,800 each year, which I know you have been concerned about as well. But I think that is our best judgment, and I think that is a question that should be addressed to the college presidents themselves this afternoon in the testimony.

Senator PELL. From the viewpoint of grants, your proposal treats all families between $15,000 and $25,000 exactly alike. Do you think this really reflects families' relative ability to bear the cost?

Secretary CALIFANO. No, because it does treat them exactly alike, and it does not—it is not designed to reflect their relative ability to bear the cost. We think it is a fair amount to say they should all get that same kind of grant benefit, that we should provide to them other programs, the work study program, which will now be available to almost half a million students in that range above $16,000, and a loan program which we think deals more appropriately and less expensively with the liquidity problems that most of those families have.

Senator PELL. The proposal with this flat $250 credit for grant to all families between $16,000 and $25,000 appears rather similar, at least in effect, to the tuition tax credit. Where do you see the difference?

Secretary CALIFANO. I think there is a substantial difference between this and the tax credit proposal.

Senator PELL. For this range of people?

Secretary CALIFANO. This range of people, I would say that the major differences are, one, these benefits under the Pell grant program are benefits that can be adjusted depending on differences in needs, differences in the cost of the college, and differences in terms of family allowance and family contribution schedules. That kind of flexibility, which is what makes this program such an attractive one for colleges, families with students in college, is just denied by totally inflexible kinds of tax credit that can never be adjusted along the way.

Senator PELL. The impact on the individual will be the same?

Secretary CALIFANO. In 1 year, if in 1 year you had the same—well, sure, he would get $250, if in 1 year you would have it. There is one difference, he will get $250 a lot earlier in the year this way than he will under a tax credit when people get it sometime the following year.

Senator PELL. I think, if I could simplify this whole picture, that basically what you are proposing is $990 million in the grants, $150 million for work study, and $70 million for guaranteed student loans. This adds up to the same amount of money, $1.2 billion that our bill put in on the Senate side a week or so ago adds up to, but with different divisions.

In addition to that, the House has added to it supplemental grants of $450 million not to take effect until 1980. I think we see the four basic components to the bill that the House has before it. We did not get a copy of your bill yet today; we tried repeatedly, and only the House was fortunate enough to get it. Do you see any great damage or what would your feeling be in the basic grants if we changed the torque around a little bit to try to help, have a steady graph there, and spend exactly the same amount of money.

For example, 14-percent assessment rate, do you understand what I mean by assessment rate?

Secretary CALIFANO. What would be the tax rate on that charge——

Senator PELL. Assessment rate is on disposable income. It is now 20 percent on the first $5,000 and 30 percent of the income above that. That sum is taken away from the sum or the amount of grants that is authorized under the law, $1,800. If it is more than that, no grant. If it is less, the student gets the difference, which I trust somebody at HEW must thoroughly understand, because it is the guts of the whole program.

What I am suggesting is to change that assessment rate to 14 percent. Congressman Ford had an excellent proposal, 16.5, 16 percent, that was not accepted at the time by the administration.

I am wondering what your views would be if it were 14-percent assessment rate, which would take no more money than your proposal does, but would have a graph like this that was a steadier graph than this rather abrupt stretching out between $15,000 and $25,000.

Secretary CALIFANO. It would take $990 million?

Senator PELL. Exactly, to the penny.

Secretary CALIFANO. To the penny. It would go to $1,800 maximum?

Senator PELL. It would go to $1,800 maximum.

Secretary CALIFANO. I would like to look at it and would certainly submit a comment for the record on it.

Senator PELL. But in principle, because we are really talking this thing out now, there is nothing new in this concept. You may want to consult with your people, but would this not be acceptable to you? I would hope it would.

Secretary CALIFANO. I think the proposal we made is the right way to do this. What I would like to do, Mr. Chairman, if I may, is examine that and submit a response to you for the record.

Obviously we are talking about matters that are not, as you said, issues of principle, just issues of a better way of doing these things.

Senator PELL. What I would like to do in connection with the administration bill—and by the way, do we have it yet? Anyway, when we do get a draft from you——

Secretary CALIFANO. I am surprised you do not have it.

Senator PELL. We tried to get it yesterday.

At any rate, when we do get it, if we put in 14-percent assessment rate and worked from that, would that be reasonably acceptable to you? Same amount of money, not another nickel more.

Secretary CALIFANO. Mr. Chairman, I would like to look at it to see what future cost implications are, give you detailed response as to how much it costs in the future to make changes. The one thing that concerns us, as I mentioned, one of the things that concerns us is the cost of increasing the maximum depending on how you draw that line. And we do not in the future want to inhibit or put restraints that would in effect hurt low-income families at the expense of having them pay for it for middle-income families. We in a couple of days will give you an analysis of that. We will give you our comments.

Senator PELL. This approach is more aimed at middle-income students, which is really what the President is talking about here. The low-income student is helped by the fact the maximum grant goes from $1,600 to $1,800, which is something new in any case. So the low-income student will not be hurt by it, although the proportion will change from the administration proposal. The larger amount will go to middle-income America, which is that portion of America that is really squeezed at this point, having such a difficult time. So that is my own intention, and I would hope very much that House Members might bear with me on this because it is very much in line with their original proposal, with no more money spent.

Now, another question that bothered me.

In connection with your thought of an additional 3.1 million students who will receive grants, we have tried to work out those figures and we cannot figure out where you got the additional 3.1. Can you tell us?

Secretary CALIFANO. Yes; I can tell you how we spewed this program and how we got it and submit it for the record.

Senator PELL. There is nobody who can tell me now?

Secretary CALIFANO. We spewed those 3.1 million students out of our computer program.

Senator PELL. Maybe your assistant can tell you how he got this.

Mr. O'Keefe. According to our estimates as the Secretary indicated from our computer model for estimating the cost of this program and the number of participants, number of grants that will be made, we estimate that in 1978, 2,398,000 grants will be given. In the 1979 earlier budget request, submitted by the administration, we estimated that 2,193,000 grants would be given. In the 1979 proposal that you now have before you, our estimate that there will be 5,250 grants awarded. Between 1979 and 1978——

Senator PELL. 5 million, you mean.

Mr. O'KEEFE. 5 million. Thank you.

Between 1979 and 1978 that is an increase of 2,850,000. Between 1979, the proposal that you see before you today, and the earlier proposal in the budget, that is an increase of 3,056,000.

Senator PELL. We will study those figures and we will work those out.

Another question of general policy: If the tax credit is passed, and as you know, there was something like a 65 to 12 vote in the Senate last year, it is going to be very hard to derail it. It has to be done very

simply, and by something much better. That is why we on the Senate side put in our simple bill—will it be the President's intention to veto the tax credit bill or will you recommend he veto it?

Secretary CALIFANO. I think the President indicated yesterday he did not think the country could afford both of these programs. There has never been an alternative presented to Congress, serious, viable, thoughtful, flexible appropriate alternative. And I myself am confident that if this legislation passes Congress on a timely basis, and these joint hearings I think reflect the opportunity to pass it on a timely basis, that the tax credit will not pass the Congress, that Congress will recognize that tax credit for higher education is not necessary or appropriate and cannot stand muster in terms of sound public policy when measured against this proposal.

Senator PELL. A final question: How do you propose that we help private institutions? I come from a State with the highest Roman Catholic population in the country, and the highest percentage of private schools, and parochial schools. While realizing tax credits may not be the approach to it, what approach is there that we can hold out to our people in line with the President's preelection statements to which they can look forward?

Secretary CALIFANO. Senator, with respect to higher education which is what we are talking about here, and what this proposal is directed at, we estimate that about 27 percent of the money for higher education assistance in the fiscal 1979 Carter budget, including this proposal, will go to private schools of higher education.

The student bodies break precisely that way. There are roughly 27 percent of the students in higher education in private schools. So we think they are getting their fair share of these funds.

This proposal does not pretend to deal with the problem of elementary and secondary education. I do not know whether you are referring to that problem.

Senator PELL. The Moynihan-Packwood bill covers both institutions of higher learning and schools as well. This is a real problem we have to face.

Secretary CALIFANO. As far as elementary and secondary education are concerned, I guess I should make some general comments.

Senator PELL. They desperately need help.

Secretary CALIFANO. The President indicated that he would seek, as the quotation read, constitutionally sound ways to assist private education. Whether a tax credit is a constitutionally sound way is certainly subject to question under the *Nyquist* case that Senator Eagleton mentioned. For one, I have asked the Attorney General to look at that question. There certainly are serious constitutional questions about a tax credit for elementary and secondary schools.

Second, in terms of policy, I think distinction has to be made among different kinds of elementary and secondary schools. I myself send my children to Georgetown Prep and Stone Ridge. I choose to do that. I pay the bill for that. I do not think the Government should pay me anything, give me a tax deduction for doing that. That is one kind of school.

There is another school, local parish school, that may not charge $10 or $15 a month for someone to do that. Presently that church gets a tax deduction, there is a tax deduction for money provided in the church collection by individuals who contribute to the church of

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their choice. Much of that money in the parochial schools, much of the money collected in the church that is adjacent to those schools is used. So there is a tax deduction sitting there already.

Third, on a per student basis, the funds that we provide in our budget, in the Federal budget for public school children, averages out per student and not per title I student, averages out to about $128 per student in public schools. The Moynihan-Packwood proposal would provide $500 per student to parochial schools for those students. I think that certainly raises a serious question of public policy.

So I have great reservations about it. I would note one other thing, as the Monsignor noted in the statement that Congressman Biaggi read, the President has taken steps administratively to try and make sure that the parochial schools get the funds to which they are entitled. I might say, incidentally, that our estimate is that we are now providing through Federal programs somewhere between $55 and $70 per student in private schools, in elementary and secondary schools, in terms of equipment and other things that are in the elementary and secondary legislation Congress has passed.

But one of the problems has been the fact that equipment, books, and what have you is not delivered to these schools on a timely basis. The legislation provides authority where, if that is happening, the Commissioner of Education can move in and bypass the State superintendent and State structure. That authority has never been used until this year when we used it. Commissioner Boyer used it in the fulfillment of the President's pledge. When Abe Beame was mayor of New York, I talked to him about it, and I am sure Mr. Biaggi is familiar with this; New York City has that problem, and I talked to Cardinal Cook about it.

We are trying to make sure that the city and State get that equipment through in New York. If it does not get through in New York fast enough, we will not hesitate to use authority Congress has given us.

But, finally, I think the issue of elementary and secondary assistance at parochial schools has been an incredibly difficult one from the time of the 1965 Elementary and Secondary Education Act. It is the most treacherous part of that legislation, as Chairman Perkins well knows, and as you know, Senator Williams, when we were trying to negotiate that out, pluck that out, and I believe in the State of New York, if I am correct, just last week the Federal district court declared unconstitutional a tax credit scheme that assists private schools. I think that is a long complicated subject that needs a lot of attention and thought. It just popped up in this manner this year relatively recently.

It is apples and oranges compared with the subject we are dealing with today.

I think the subject we are dealing with today is one which we are able to move swiftly, largely because of the work that you have done, that Chairman Ford has done, over the years in working with all the nuances of the higher education programs, Congressman Brademas and others.

I think we ought to deal with higher education problems because we know what we are doing, and I think we know how to deal with it.

Senator WILLIAMS. Before we turn to Chairman Perkins, just one clarification for my benefit.

Senator Pell indicated that if the assessment, BEOG's assessment rate were changed to 14 percent, which again would give us the graduated grant between the incomes of $10,000 and $20,000, the cost of that part of the program would be the same as the program submitted by the Secretary, flat grant from $15,000 to $25,000, is that what you stated?

Senator PELL. That is correct.

Senator WILLIAMS. To say that the cost would be the same, that must rest on the data base that is the same, the numbers of applicants, the numbers eligible. Now, I understood that the computer gave you these numbers, and I think it should be understood that we are working from a common base for the application of the two.

Secretary CALIFANO. That is right. It is very important we make sure we are working from a common base. We will run those numbers and make sure your staff has them.

Senator PELL. These figures came from the Library of Congress, which used the Office of Education figures as their base.

Senator WILLIAMS. Congressman Perkins.

Mr. PERKINS. Thank you, Mr. Chairman.

I personally like your package. I have never yet seen a proposal of this magnitude come before the Senate Subcommittee on Education and the House Committee on Education and Labor where there was a meeting of minds, and that has been the problem, of course. There is nothing sacrosanct when we go to conference, and I have never seen a situation yet where we have not been able to work something out with Senator Pell.

I personally like the approach that you have proposed here. Most of the money is in the area of the basic educational opportunity grants, where it should be targeted. The additional money for work study, the $150 million, is also very desirable.

I have always believed that when we let a student pay part of his way through college by working 20 hours a week, that student is obtaining much experience that will be useful to him throughout his life. I mentioned that there may be some small changes in the package. I am certain we will be able to work them out in committee and conference. But, by and large, I feel that you are to be complimented for bringing this package. I have just a few questions, and then I will call on Mr. Ford.

We have made great progress in simplifying the application forms which students and parents must fill out for basic grants. Nevertheless, the forms are still lengthy and complicated. It would be my hope that a simplified form can be made available to students who will qualify for the $250 BEOG grant.

Will this be the case? Are you planning to work out a procedure which will be as simple as it possibly can for paying the guaranteed minimum grants?

Secretary CALIFANO. Yes, Mr. Chairman. Part of this program contemplates there will be a short form, I hope one page, for those who would be entitled to minimum grants. We also hope to further simplify the existing BEOG forms and work is ongoing on that.

Mr. PERKINS. I have correspondence in my office that demonstrates the great need for this. Students have actually become discouraged and failed to make applications because of the tremendous paperwork that has been involved in the runaround to get into some institutions.

Am I correct that with proposed changes in the insured loan program students from families with adjusted family income of $40,000 or less will be able to obtain loans and interest subsidy with minimum amount of paperwork on the part of the students and their parents? They, too, will not be required to fill out the complicated forms? This is the area in the commercial loans where we are confronted with this situation.

Secretary CALIFANO. Yes, Mr. Chairman.

Commissioner Boyer has already eliminated about 2½ million forms by changing and consolidating some of the forms. Our ultimate objective, which I hope we can reach in a couple of years, is to have one form, and it will take care of everything. So you will not plague students and parents with filling these out.

We are going to simplify this loan form as well.

Mr. PERKINS. We have talked about this so long in the past. I think you are going to be the individual that is going to move in this direction and do this job. But a very, very important part of this proposal is the proposed liberalization of the insured student loan program.

Middle income students will be able to obtain loans with relative ease of $1,000 or more to meet current bills. We have observed that the insured loan program is most effective in States where there are State insured loan agencies.

The 1976 amendments encouraged the establishment of these agencies.

Mr. Secretary, could you tell us what progress is being made along these lines? Are an increasing number of States moving to establish State agencies?

Secretary CALIFANO. I think an increasing number of students are moving to establish those agencies, and I think we could provide a list of the States and agencies for the record if we may.

[The following material was subsequently supplied for the record.]

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Alabama		X			FY 78
Alaska	X				
Arizona		X			FY 79
Arkansas	X				
California		X			FY 78
Colorado		X			FY 79
Connecticut	X				
Delaware	X				
District of Columbia	X				
Florida				X	FY 78
Georgia	X				
Hawaii		X			FY 79
Idaho		X			FY 80
Illinois	X				
Indiana	X				
Iowa		X			FY 78
Kansas			X		
Kentucky		X			FY 78
Louisiana	X				
Maine	X				
Maryland	X				
Massachusetts			X		
Michigan	X				
Minnesota			X		
Mississippi		X			FY 78
Missouri		X			FY 79
Montana		X			FY 78
Nebraska		X			FY 80
Nevada	X				
New Hampshire			X		
New Jersey	X				
New Mexico		X			FY 78
New York	X				
North Carolina	X				
North Dakota		X			FY 79
Ohio	X				
Oklahoma	X				
Oregon	X				
Pennsylvania	X				
Rhode Island	X				
South Carolina		X			FY 7
South Dakota		X			FY 7
Tennessee	X				
Texas		X			FY

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Utah	X				
Vermont	X				
Virginia	X				
Washington				X	FY 79
West Virginia		X			FY 79
Wisconsin	X				
Wyoming		X			FY 79
* American Samoa					
* Trust Territories					
* Guam					
Puerto Rico		X			FY 79
Virgin Islands		X			FY 79
TOTAL	26	21	4	2	

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Connecticut
Delaware
Georgia
Illinois
Indiana
Louisiana
Maine
Maryland
Michigan
Nevada
New Jersey
New York
North Carolina
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
Tennessee
Utah
Vermont
Virginia
Wisconsin

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Massachusetts
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The Colorado Commission of Higher Education (CCHE) has appointed a committee to draft legislation for the establishment of a State agency. In response to our letter encouraging the establishment of a GSLP, the Office of Education received a letter from Governor Lamm in which he expressed his interest in the program. Lindsay Baldner, CCHE, has indicated that the Commission is currently seeking legislative support as well as generating lender interest. It is anticipated that the program will be established by July 1979.

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OE officials met with representatives from Governor Teasdale's office to discuss the procedures for the establishment of a student loan program in Missouri. Richard Stillwagon, a representative from the Governor's office, met with OE in January 1978 to obtain further information on the Education Amendments of 1976. He plans to present the program to the next session of the Missouri legislature and encourage them to create a State guarantee agency. It is anticipated that the program will become operational by January 1979.

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OE officials met with a representative of the Office of the Commissioner of Higher Education, William Lannan, to discuss procedures for the establishment of a student loan program in Montana. Implementation of the program depends upon legislation. Another meeting was held in February 1978 in Great Falls, Montana, with the Study Commission, lenders, and schools on the latest developments and to advise them of requirements. Commissioner Pettit has recommended to the Governor that his department be designated as the guarantee agency and they are drafting an Executive Order to this effect.

NEBRASKA

OE officials met with representatives from the Office of Congressman Cavenaugh of Nebraska to discuss the establishment of a student loan program. William Fuller, Executive Director, Nebraska Coordinating Commission for Postsecondary Education, has been designated to explore the possibility of establishing a program. Mr. Fuller has been in contact with our regional

office in Kansas City, Missouri, to further discuss the establishment of a student loan program. No timetable for establishing an agency has been determined.

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A meeting between OE officials and the Bank of North Dakota, members of the Governor's Office, and the Postsecondary Education Commission was held on January 23, 1978, to discuss the establishment of a student loan program. The North Dakota legislature meets in 1979. In the meantime, a study will be conducted to determine the feasibility of creating a State program.

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Governor Brisco has advised that Texas is currently engaged in a comprehensive evaluation of possible State involvement in the program. A committee has been created to study the options for State participation. In December, Mr. Mack Adams, Head, Coordinating Board, Texas College and University System of Texas, met with members of the guaranteed student loan program staff and discussed establishment of the program. It is anticipated that the program will be established by September 1979.

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Puerto Rico has contacted the Office of Education to obtain a listing of existing State agencies. They plan to contact these agencies for information and an exchange of ideas on guarantee agency programs. In November, in response to our letter to the governor, members of the Office of Education met with representatives of Puerto Rico to discuss the financial incentives provided States under the 76 Amendments. Another meeting was held in February 1978 to discuss establishing a program in Puerto Rico and the cost to Puerto Rico to create a program. Puerto Rico will explore the possibilities of funds for start up cost of an agency and make its recommendations to the governor.

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Mario A. Watlington, Chairman, Virgin Islands State Board of Education, forwarded a copy of Virgin Island law to determine whether or not it meets the requirements for establishing a program. OE will review the regulations and continue to work with Mr. Watlington. They plan to schedule a meeting in the spring with OE officials to discuss the establishment of a guarantee agency.

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Mr. PERKINS. Let me thank you very much, Mr. Secretary.

Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman.

Mr. Secretary, I think all of us have been negotiating, and I would like to observe that when I started negotiating with you, I was not wearing the cast that is on my right arm. For those who observed us [illegible] I observe you of direct responsibility. [Laughter.]

The questions raised with respect to how the redline projects itself out there are questions we have all tried to deal with. They really require very little change. It really requires very substantial computer runs to know what impact is going to be. I think it is fair to observe that, on our side, we agree with Senator Pell we should not just quickly accept the idea that this specific location of the redline on your chart is exactly the place to get the most efficiency for the amount of dollars.

I am sure we can refine the initial ideas.

I am pleased to see that so far everyone agrees that philosophically your placement of the redline on the chart is going in the right direction and trying to put the emphasis where it belongs.

Secretary CALIFANO. I think I should note for the record that that redline, if there is anyone responsible for continuing to move that redline over the past couple of weeks, it has been Chairman Ford.

Mr. FORD. Thank you very much. I wish we could go to the point that the Senator wished to come, and that is even better.

We have a study that was requested by my committee last spring of the Congressional Budget Office. It is a study produced without drawing conclusions or making political recommendations because that is not the function. Instead, it compares alternative methods of delivering higher education assistance to middle-income students. It was released just this January.

One of the things you notice very quickly when you look at the chart in this study with five alternative methods of reaching middle-income children with college funds is that a tax credit tends to hit the target, if the target is the $10,000 to $25,000 income family, with less than half of the new money that you put into it. It demonstrates it takes more money to hit the same number of children with tax credits but, if fact, the $10,000 to $25,000 group gets less than half of the money, and most of the money that misses that target takes off and swoops upward into high income brackets.

On the other hand, the Office of Management and Budget sort of anticipated your program and took the $800 million figure for improvement in the Pell grants. Without going to the refinement of where the redline on your chart is, it came to the conclusion that the most efficient way possible to put most of the money out in motion so that it hit the students from the $10,000 to $25,000 group was to expand on the Pell grants. So they used the figure $800 million.

We are now talking about $1 billion, which is more generous, of course. Even with $800 million, they showed they could hit far more of those students with the money than $1.7 billion spent in tax credits would hit.

They picked the $800 million figure trying to get close to what produces the same number of students, so it takes more than twice as much money with tax credits to hit the same number of students in the $10,000 to $25,000 bracket.

They indicated that spending $800 million, which is less than what you are proposing, would pick up a situation where 72 percent of the money goes to students from $10,000 to $25,000. Obviously, if only 72 percent of the money hits that target, the rest of the money went somewhere. Your chart and this study indicate that by using Pell grants as methodology for the principal expenditure of money, the result is efficiency in targeting, efficiency when measured against zero to 100 percent of the money going to middle class, and results in improvement for the students already qualifying for the programs.

On your chart you show that very dramatically. At zero income you improve the status and ability, freedom of choice, if you will, for low-income students, at the same time that you bring new students in.

Now, unlike tax credits, therefore, I think that leaves you in a position of being able to say that you are proposing, and this was brought to my attention by people who are suggesting that the real concern is how much of the taxpayers' money we are going to sped, that you are proposing to spend taxpayers' money in a way that will increase the number of people who have access to higher education without diminishing the present opportunities of anybody who already qualifies.

I would ask you if you do not agree that that should be, whatever amount of tinkering we do, a guiding principle on how we finally come out on this legislation? Is it the administration's position that the protection of the existing programs and existing people who qualify for those programs is essential to the end product?

Secretary CALIFANO. Yes, Mr. Chairman, it is. We agree totally with that principle. We should not help the middle class at the expense of the poor. We should not take from the poor to give to the middle class. That is a distinct principle of the program.

I might note that along the lines you mentioned as well, take the so-called Roth proposal, that tax credit proposal would provide a quarter billion dollars to families making more than the 90th percentile of income in this country, to the top 10 percent of the families in this country.

If you take higher education portion of the Packwood-Moynihan proposal, that provides more than half a billion dollars to the top 10 percent of families in terms of income in this country.

Mr. BRADEMAS. Will the gentleman yield?

Mr. FORD. Yes.

Mr. BRADEMAS. If the gentleman would allow me to make one observation, because I must go to another meeting, and ask my single question, Mr. Secretary, I strongly agree with what Mr. Ford has just said in delineating some of the distinctions between tax credit proposals and the bill under consideration, and was glad to see Senator Pell call for some degree of flexibility in respect to the Pell grant formula.

But I think there is another consideration beyond the one Mr. Ford has noted, and that helps explain some of the attractiveness of the tuition credit proposal. People can be for the tuition credit proposal and then make the case, quite speciously to my judgment, that they are being fiscally responsible, simply because they are not voting for appropriations.

I know Members of the House who would not be caught voting for $2 billion for student assistance, but who would enthusiastically vote

for tuition credit proposals, that would represent twice the drain on the Federal Treasury, and then represent themselves as being stewards of the public's tax dollars.

I am not very impressed by that argument.

My question is this: Representing as I do a congressional district that has a wide variety of kinds of colleges and universities, public and private—Notre Dame University, Bethel College, Indiana University and Purdue University—I would wonder if you could give us a comment on how you see the impact of the bill under consideration in strengthening and in maintaining the pluralistic base of American higher education?

Secretary CALIFANO. I think the figure that might make the point most significantly, Congressman Brademas, is that prior to the $1.46 billion add-on, the private education portion in higher education area was well below 27 percent, which I mentioned, which is what they are.

Indeed, add-on in the context of nonpublic education, higher education, is close to 36 percent of that $1.46 billion, which leaves us in fiscal 1979 with higher education splitting exactly in proportion to the way the students go to school: 27 percent private sector and 73 percent in the public higher education.

So I think that we are giving to those schools ample—those schools that keep this society pluralistic and keep our education pluralistic and give us the best of all worlds—ample resources.

Second, one of the reasons we put so much emphasis on BEOG's, the Pell Grant program, is because that program is a very helpful program to that community.

My wife's school, which is a small Catholic women's college in New York, could not survive without the Pell Grant program. I think that is one of the reasons why we chose this program.

Mr. BRADEMAS. Thank you, Mr. Secretary.

Thank you very much, Mr. Ford.

Mr. FORD. Thank you.

Mr. Secretary, on the House side our committee has in the last two Congresses been given by House rule the oversight authority over all educational functions in the Federal Government without regard to the Federal agency dealing with them.

This past year, in the exercise of that oversight responsibility, we held extensive hearings on massive unrest across the country in the education community caused by regulations perceived to be arbitrary coming from the Veterans' Administration.

One of the arguments was that the Veterans' Administration decided to ignore entirely the local autonomy of the colleges and universities, and set up for themselves a stereotype of what a student should be.

In doing that, they decided what a full-time student should be, and then they just arbitrarily said either the students on your campus meet our definition of full-time students or we cut off the money.

In some instances they cut off money and said we just discovered you did not meet the definition, and we forgot to tell you about it.

In any event there are some three dozen lawsuits in process across the country because of difficulty in interpreting regulations, coming from an agency that does a fantastic job of passing out a tremendous amount of money, but does not have a deeply based philosophical attachment to education as one of their principal operations.

They just pass out education funds. In the event that we had tax credits, would there be much likelihood that IRS and the Treasury Department would let your Office of Education set the standards by which the universities determine whether they had full-time students or whether students were qualifying?

Would not we be likely to expect that IRS would want to make its own regulations about what a full-time student was to qualify for the tax credit and what the full-time attendance was for a tax credit and decide how many classes a student could miss or be late for before they lost the tax credit?

Are we not looking down the road, Mr. Secretary, toward somebody other than your agency making that kind of decision?

Secretary CALIFANO. I think, Mr. Chairman, regardless of who is Secretary of HEW or who is head of the Commission on Internal Revenue, the nature of bureaucracy being what it is, you have entirely separate sets of regulations from IRS, with entirely different focus because their function through all of this is to collect revenues, and inevitably not the heritage which the Education Department has in sensitivity toward schools and the different flexibility needed.

I think that would be inevitable.

Mr. FORD. Thank you, Mr. Chairman.

I have one final point that I would like to explore with the Secretary.

You mentioned in your testimony, Mr. Secretary, that one of the improvements over the present condition of Federal aid to college students that was highlighted in this room, proposed by you and the President, is the treatment of the independent student.

We are aware that we have now a changing college population in this country, and it comes as a surprise to people when they discover that less than half of the people attending colleges and universities in this country today are within the traditional college age of 18 to 22. That is changing every day, more rapidly in the direction of fewer and fewer or a smaller percentage of traditional age students making up the school population.

We have been concerned for some time about the independent students. Under the present circumstances, let us assume an independent student, somebody trying to work his way through school, somebody no longer in the nest, so to speak, with the family to provide housing and all the rest of the things, is industrious enough to try to go to school full-time and work. If that student makes as much as $4,200 a year, which is clearly below the poverty level, what happens to him under our present system?

Secretary CALIFANO. They basically get nothing.

Mr. FORD. They do not qualify for anything?

Secretary CALIFANO. They do not qualify for basic grants.

Mr. FORD. They walk into the bureau's office and they would be told that, so they go back and tell the rest of their neighbors because you are a rich $4,200 a year, self-employed person working full-time and trying to get through school, the Government will not do anything for you.

Secretary CALIFANO. That is correct, Mr. Chairman.

Mr. FORD. What happens to him under your proposal?

Secretary CALIFANO. Under the proposal in the legislation that you and others introduced yesterday, that person would be eligible for BEOG grant, would be rated on BEOG grant scale, according to their resources.

Mr. FORD. There is another type that many people have brought to our attention.

Let's say a widow or divorcee who nevertheless has responsibility to support herself and two children, is receiving about $3,600 in support payments from the former husband for the children, and she is able to work part-time, still take care of the children, and make about $3,000. She is making about up to $6,600 total, in support payments and her own outside income. They live in a small house in which she has $6,000 equity.

Is she eligible under present law for any help from BEOG's if she wants to go back to school to improve her job skills?

Secretary CALIFANO. She would not be eligible for any funds under the BEOG program.

Mr. FORD. What would you do for her in your program?

Secretary CALIFANO. In those particular circumstances that woman under the proposed legislation, the President's program, would be eligible for a full BEOG grant.

Mr. FORD. Finally, a prototype that I am sure will not surprise anybody has been very dear to my heart: Our typical auto worker, a family of five, with one in college, and the wife stays home to take care of the other children.

The auto worker works. He does not in recent years make the full year's salary, but in any event, they have got $17,000 income, and they are supporting three children out of that $17,000 income. They only have one in school.

It is my understanding that presently the one in school is told when he gets to the college door that your dad makes too much money and your mother besides and we cannot do anything for you. Is that right?

Secretary CALIFANO. That is right as far as BEOG's program is concerned, the Pell program.

Mr. FORD. Now, with $17,000 income, what happens to that one student in school from that auto worker's family under your program?

Secretary CALIFANO. He would be eligible for that program.

Mr. FORD. Get both the $250 BEOG grant plus a guaranteed student loan, with a subsidized interest?

Secretary CALIFANO. Yes: he could.

Actually, we estimate because of other changes in that legislation, and this is a quick rough number, we would like a chance to double-check it, that family would be eligible for about $280 in BEOG money.

Mr. FORD. Thank you very much.

Senator WILLIAMS. Senator Eagleton.

Senator EAGLETON. I have one question I will ask the Secretary to answer in brief and ask him to elaborate on it further in writing, perhaps from his legal department.

When proposals come before Congress, which would call for the spending of public moneys in the area of private elementary and secondary education, such proposals have to be considered in the context of the establishment clause of the First Amendment.

Hypothetically, if Congress were to broaden the BEOG program and the administration's proposal, so as to include private elementary and secondary education, or if Congress were to enact the Packwood-Moynihan bill, which includes private elementary and secondary

education, what would be the view of HEW as to the constitutionality of such legislation?

Specifically, I bring to the Secretary's attention the so-called secular purpose test and the so-called entanglement test as set forth by the Supreme Court of the United States in the Nyquist case and other cases in the separation of church and State which are of constitutional law.

Secretary CALIFANO. Senator, I am not a practicing lawyer an more, but as I said, I have asked the Attorney General for his opinion as to the constitutionality of the elementary and secondary portion of the Moynihan-Packwood bill.

As I understand the Nyquist case, it struck down the State statute that reimbursed low income parents for 50 percent of the private tuition and gave middle income parents of private school children a form of income tax relief, that was deduction and credit, elementary and secondary level.

I think obviously there are serious constitutional problems with doing that. Also, there are other cases as you are aware, since you follow this are closely, relating to the Elementary and Secondary Education Act that is now on the books, and there has been a lot of litigation over the past 10 years that makes it very difficult to draft legislation in this area.

I would underline again the quote that the Monsignor used that the President used in carefully choosing his words, that he was committed to find constitutionally accepted methods of providing aid.

In my judgment, this was a very candid and straight statement for the President to make. We have had in the past statements made by individuals running for the Presidency that they would simply flat out provide aid, which I think is terribly misleading.

The easiest thing for President Carter to have done during the campaign would be to imply he had some super solution to weave his way through all these Supreme Court decisions and dump a bale of money on parochial school systems for this country.

He has enough guts and candor to every time he dealt with that subject to indicate as he did in the statement which was quoted, that he was bound by the constitutional elements, and he has indicated these were difficult questions.

Senator EAGLETON. I think the record should show that former President Nixon did make the kind of statement which you referred to, in the presence of Cardinal Cook in New York in one of his Presidential campaigns—the satchel of money approach, not qualifying it by any constitutional constraints.

I hope you will convey to the Attorney General the timeliness of his opinion because I think when this bill or any one related to it comes to the floor of either body, constitutional questions are going to be raised. It will not do us much good to have the Attorney General's opinion next year if it is to have an impact on this or related educational programs. The opinion should be made of public knowledge prior to the debate.

Thank you, Mr. Chairman.

Secretary CALIFANO. I will convey that, Senator.

Mr. PERKINS. Mr. Buchanan.

Mr. BUCHANAN. Mr. Chairman, obviously, as a cosponsor, I fully support this legislation and prefer this approach to the tax credit approach.

I do have some concerns, however, based primarily on the fact that our problem here has long been not with these two committees, which have desired to be more generous in our approach to education and wanted to give more assistance to middle-income families. Our problems here have been with OMB, the White House, the Budget Committees and the Appropriations Committees.

Now, I am delighted we do not have the problem with the White House or executive branch, as this is your initiative. I am concerned about elementary and secondary vocational education, those areas where still a majority of young Americans are. Only a minority of students get into postsecondary education. I think this would provide incentive for greater numbers to do so, but I am concerned about the limitations of the total appropriation of funds for education.

It is going to take a very substantial commitment by you and the administration, in your dealings with Budget and Appropriations Committees, to make sure that not only is there adequate money for postsecondary education for student programs, but also for elementary and secondary education.

I trust we can look toward that very strong commitment.

Secretary CALIFANO. Yes, Mr. Buchanan.

There are major increases in elementary and secondary areas in the President's budget. Increases of about a billion dollars for title 1, for new concentration provisions, $664 million, almost $300 million for special education for the handicapped. We have increases of $15 million, bilingual education, sharp increases in per student amounts we are paying for Indian education.

I think across the board this is the most walloping education budget that a President has presented since Lyndon Johnson proposed the Elementary and Secondary Education Act of 1965.

I think we are committed strongly in that area and sensitive to what you are talking about.

Mr. BUCHANAN. Second, I followed your concern that we not neglect to cover low-income families presently receiving assistance under existing law. If we had less than full funding, it seems to me we must make certain that in this new legislation these families are covered. For example, as I understand it, about 270,000 students with incomes of below $13,000 are from families who would be able to qualify for the full $1,800 basic grant under current law.

Now, I am not sure that the proposal would, if less than fully funded, protect them to the extent that they would receive at least a comparable amount.

Secretary CALIFANO. We would propose that as soon as authorizing legislation is passed by the Congress, to immediately go to the Appropriations Committees and we are already in the process of briefing on this legislation to ask the appropriations to fund this legislation.

So we would propose to go to that full funding, $1.46 billion, here immediately upon passage of the legislation.

Mr. BUCHANAN. Would you have objection if we sought to find the means to protect, in the event of less than full funding in the basic legislation, low-income families against falling below what they receive under current law?

Secretary CALIFANO. I would like to look at the specific proposal, but I do not think there would be any disagreement in principle on that. I would underline the fact that the President's central objective here is to provide some assistance to middle-class America, and the

expenses they are incurring with respect to college education, and to achieve that without hurting and not at the expense of low-income individuals and families.

Mr. BUCHANAN. One other question grows out of the same concern about the possible limitation of total funds.

I, like the chairman of the full committee, have put emphasis on the work study programs, and I think that is the right direction in which to move.

If we do get a limitation on funding, you indicate in your statement further recommendations on such programs as supplemental grants or State student incentive grants.

In the State student incentive grant program, for every dollar we put up the State has to put up a dollar, thus creating a multiplier effect.

Would you comment on the possibility of some additional State student incentive grant money in this bill?

Secretary CALIFANO. The reason we did not put any additional money in there is because the States are far beyond what we are putting in now. So our dollars do not draw any additional State dollars.

We will next year when there is more time be here in the Congress when laws are up for reauthorization with proposals for changes in them which we think will make them better and for your consideration at that time.

Mr. BUCHANAN. I have a very strong feeling that our human resources are our most precious resources. It seems to me that the legislation introduced today is a step toward allowing American citizens to have a chance at growth and significant self-fulfillment. I want to express my appreciation to what I consider a very major initiative.

I hope we can get this bill through Congress with the Budget and Appropriations Committees' support for full funding.

Secretary CALIFANO. Thank you very much.

Mr. PERKINS. Mr. Biaggi.

Mr. BIAGGI. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for responding to the concerns and the statement of Monsignor Pryor.

You raised the question of constitutionally feasible assistance to parochial schools.

To your knowledge, is there an ongoing effort in funding a program?

Secretary CALIFANO. Yes, Mr. Biaggi.

I have had my lawyers from HEW looking at this program for a couple of months—several months I guess, now—in the General Counsel's office.

Second, I, myself, have been looking at this problem to see whether there are ways in which we can improve and increase the assistance we are providing elementary and secondary school level.

It is not an easy task because existing statutes that are on the books are already under attack in the courts in the Elementary and Secondary Education Act.

When we come up here with proposals in the elementary and secondary area, that part of that area, I hope we are coming up here with something we think will withstand what is certain scrutiny by the Supreme Court.

We are sensitive to that problem and the President reflected that sensitivity during the campaign.

I have meetings with individuals who are interested in this problem, as has Commissioner Boyer, meetings he has had with private schools.

We will do our best.

Mr. BIAGGI. Then my understanding is the only area in which parochial schools obtain assistance is for the Elementary and Secondary School Act to the extent of equipment and books?

Mr. CALIFANO. Yes; in that area.

But I would also note, as you well know, that when somebody goes to church on Sunday and they put money or $10 a week or whatever in the collection basket, that that is tax deductible, and a lot of that money is used by Catholic churches in individual parishes to help support the parochial school.

I think that is another level of assistance which is provided there.

Mr. BIAGGI. I think you and I agree that the Catholic schools find themselves in financial difficulty.

Secretary CALIFANO. Tremendous.

And we should try and find ways to provide assistance to them. The Chicago parochial system, I have been told, is taken out as a separate system, and it would be the fifth largest parochial system in the country.

I think the worst thing we could do would be to say we have some way of doing that—just holds no hope at all, in the face of our Constitution. I think that would be the cruelest hoax that one could perpetrate.

Mr. BIAGGI. I could not agree with you more.

Mr. FORD. Will the gentleman from New York yield?

Mr. BIAGGI. Yes.

Mr. FORD. I would just like to observe that since just about the time we were moving the Elementary and Secondary Education Act on this committee, we have considered a wide variety of suggestions on how to effectively increase support for non-public-school students in schools that are church-related, not just Catholic schools, but other church-related schools, or religiously oriented schools. I recall a conversation a few years ago with one of the experts of U.S. Catholic Conference who had been viewing with us some of the proposals to be made when we reenacted the Elementary and Secondary Education Act. The statement was made, something to this effect:

> I hope you will protect us from those who would purport to be our best freinds who want to get us into the Supreme Court and out of the legislation.
>
> If you try to be overly helpful with types and kinds of invisible lines that we have to deal with in trying to meet those court decisions, you may very well help—it may look like you are a great savior of the parochial school movement in this country. But you may well be constructing something for getting them completely out of business.

I would like to observe further that an interesting departure, the so called Packwood-Moynihan proposal, would give us from the whole approach to Federal involvement in education, that for the first time we would be commingling a major issue at the elementary, secondary, and higher education level.

Anyone who has taken 15 minutes to read Supreme Court decisions with regard to the first amendment recognizes that the Court has very studiously made a clear distinction between the way they have dealt with higher education and with compulsory elementary and secondary

education. This is in conjunction with a national policy that says that the children will go to school to some certain age—State by State it varies—as contrasted with the totally optional opportunity to go to college.

I really do not think that it is being too dramatic to suggest that it would not be in the best interest of those who might think they would be best served by a tax credit to find higher education before the Court with elementary and secondary on the church-State question.

It certainly would not work to benefit of the higher education community, in my opinion.

I would commend to the gentlemen from New York a very learned article on this subject which I wrote after the *Lemon* decision, and I assume it has been read by no one except the members of my family.

Mr. BIAGGI. I would like to stay on that point for a little bit. I am familiar with problems and pitfalls.

What is to preclude them from getting an increase in the present assistance they get from the Government?

Secretary CALIFANO. I suppose it is possible to increase equipment, books, what have you, and the assistance they are getting.

I do not think there is anything to preclude it in that sense, but I would like to look at in the context of the budget and we will obviously be dealing with these issues and testifying before your committee, I think within this month, if I might, Mr. Chairman, on Elementary and Secondary Education Act reauthorization.

Mr. BIAGGI. One final question, Mr. Secretary: With this legislation, obviously an increase in student loans, the rate of default and bankruptcies have been of great concern to yourself as well as Members of the Congress.

I wonder if you would respond to that concern for the record.

Secretary CALIFANO. With respect the the guaranteed student loan program, which is the program that we were recommending be increased, I would like to just make a couple of general comments.

There is a student default rate now running at about 11 percent. That also means that participating lenders are collecting 89 percent of those loans. That program has been in existence for 12 years.

Until this year, 1977, we have had a very limited and sporadic billing process. Now, there are not many people in this country that pay bills that they do not receive. At least, I do not know many people that do that.

Second, we have discovered that the recordkeeping is unbelieveably inadequate. Students' current addresses were not maintained on a continuing basis.

We have had enormous difficulty in getting them.

Third, there was a failure to scrutinize the participating institutions to assure that they had sufficient administrative and management capabilities to operate their program.

Last, there was not an adequate program to refer cases to U.S. attorneys for litigation. Up until 4 months ago in the whole history of this program, approximately 600 cases had been referred to U.S. attorneys for litigation.

During my tenure at HEW, over 1,500 cases have been referred for litigation, 1,275 of them in the last 4 months.

I really have to give a lot of credit here to Leo Kornfeld, who Dr. Boyer and I brought in to absolutely put this program back on track.

There is by our estimate in that program about 340,000 to 350,000 loan defaults which are backlogged at the Bureau, and it will probably rise to over 400,000 as we get our new systems in place.

The money involved is $500 million by our estimate. Now we have begun. One, we are putting in a computer system so that people will automatically be billed, automatically get the kind of dunning letter that they ought to receive under these circumstances.

We have billed the 4-year-old default accounts and 3-year-old default accounts, but addresses are so bad on them that out of 67,000 borrowers to whom we sent notices, only 37,000 received the letters through the mail.

The other 30,000 had erroneous addresses, and we are now in a complicated system of trying to locate them. We will, by the end of March, have sent out letters to all in default, 2-year defaults or 1-year defaults.

We, I hope, are moving on that part of the problem.

Second, we are putting a system in place which will keep us as current as you can be in a mobile society with the addresses of defaulters. I might note that I mentioned 1,275 cases we have referred in the last 4 months, just simply doing something like that. 950 of all the cases submitted have been settled, or we have reached a judgment on them.

This is a difficult problem in this and other areas, We intend to move with a whole host of administrative and other changes that Mr. Kornfeld has put in place, but the condition of that Bureau administratively in the context of taking care of the taxpayers' funds left an enormous amount to be desired.

Many areas of the administration or management of these programs were neglected over the past 8 or 10 years. We began to get at this as far as HEW is concerned when we started an operation we call Operation Crosscheck.

We began, as we always do, with our own employees in this area. We ran the HEW payroll against student defaulters in the guaranteed student loan program. We found 317 employees who were on the HEW payroll, or had been on it within the past year, who were in default. We have settled 208 of those cases now, most of them with payments.

We are in negotiation with 48 others. We are still trying to find, locate with accurate addresses, 61 past HEW addresses. We just completed this week a crosscheck of the entire Federal payroll against government student loan defaulters, and we have identified 6,738 Federal employees who are in default on student loans. We estimate that the amount of these defaults is about $7.5 million.

Mr. Kornfeld is a brilliant and excellent administrator, as is Dr. Boyer, but neither they nor I did anything that required any spectacular element of genius.

We simply went into a situation which was in a state of absolute chaos, total disregard for expenditure of taxpayers' money, and then began to put some administrative management controls on it.

You have been aware of it, concerned about it, Chairman Ford and Perkins have been concerned, and we made a recommendation to increase this program with the knowledge that we will have in place an administrative system that deals with this problem, that protects taxpayers' money.

We are putting in billing systems which never existed—we have billing systems in four regions in this area. We will have the other six

regions operational by August. Just imagine a situation in which there was virtually no billing system in any HEW region to bill individuals for these loans.

We will be pressing hard on the institutions themselves to develop an institutional capacity to do their part.

I would not have recommended an increase in this program had we not spent the last year or so getting into this and putting together an administrative apparatus that will take care of this problem.

We are doing the same thing in other areas, and when we have it all together, we will announce the administrative changes and make a report.

Mr. BIAGGI. I want to commend you.

That is all I have.

Senator PELL. I would like to add my own personal thanks and gratitude to Senator Javits for all the education legislation we have introduced these past years. We have worked on very closely together.

Senator Javits.

Senator JAVITS. Thank you very much, Senator Pell.

You deserve great credit for the wonderful leadership in this matter, including the initiation of this very line, which the administration is now pursuing.

Mr. Secretary, I have been at four other hearings this morning. I am sorry I have not been here to hear all of your testimony, but I have been, I think, quite adequately briefed.

I have the following question I would like to ask you.

If this guaranteed student loan program presented such defaults, and it does, and I certainly am as gratified as Congressman Biaggi and the others here with the vigor with which you are going after this, and we have urged it, and at least it is being done, why do we seek to go the same route for families that make twice as much income as we have here?

For example, upping the income ceiling to $45,000 a year. That excludes very few families in the United States for interest subsidy.

My question which I ask you is this: Are we not leaving so few that you might just as well take off any cap? Why have the bureaucracy that is going to pass on whether it is 45 or 46, and simply make that available to any student who is attending a college or university and is continuing to merit such attendance?

Secretary CALIFANO. Senator, there are two parts to the question.

With respect to the first part, let me simply note that I would not have recommended an increase in this program had I not felt that we have administrative problems in control on a current basis, and in cleaning up the problems that were there.

I am confident as far as that is concerned.

I would note and underline the fact that while these large sums of defaults, numbers of defaults, are inexcusable, 87½ percent of those program loans are collected and are in the process of collection.

Second, with respect to your other point, I suppose there are any number of ways, at any number of levels, at which you could cut off where you make subsidized interest loans available to any individuals.

We took $40,000 as about what we thought to be a fair level of cutting it off.

That is an adjusted family income figure. I would hope that we could simplify this whole loan application process as I indicated

earlier during hearings, so that we will not need a big bureaucracy to make this kind of check.

Colleges, for example, now just ask that a copy, on a selective example basis, a copy of the income tax return be made available to check and what have you.

There are much simpler ways of doing this than we are now doing it. I do not pretend there is any magic in $40,000. It is our best judgment.

Senator JAVITS. I think that really was not quite the answer to my question.

I said, why should any limit, if it is going to be $45,000, that includes practically everybody, eliminate the limit and you eliminate bureaucracy, and make the test whether a person is or is not satisfactorily attending an eligible college course?

Secretary CALIFANO. I guess my answer would be that I think we still—while it may be a relatively small proportion of people, I think we still have a sense that there should be some relationship to need in that loan.

When you get to people making $100,000 or $150,000, and all the arguments with which I am sure you are familiar, should Rockefeller's children get this, or what have you, decided to cut it off there. There was no special magic in those numbers.

Senator JAVITS. That is your rationale.

Senator PELL. Excuse me, Senator Javits.

Your idea seems to me to have tremendous merit. Think of all the paperwork being done, in connection with the means test that would be eliminated if your thought was taken.

Senator JAVITS. Right. Take any cap off of it, and the cap is really ridiculous in terms that it excludes so few.

I think as to Rockefeller, if the Rockefeller children get it, they are paying back a good deal themselves to the Treasury, so why should we begrudge him $250 a year?

Mr. Secretary, the other question I have for you is this:

It would be very useful if you can do it now, or you can do it later in writing, to state the classic argument of the administration as to why it is taking this route instead of the route of these bills which go to tax deductions or refundable tax reductions for college and university tuition.

This is the issue which I have faced and would like to call your attention to the fact that we got 11 votes last time out in the Senate against this proposition, of which Senator Pell's and mine were 2.

Now, this is very serious. If that is really the sentiment, and it has a reasonable justification, this plan of the administration's and of Senator Pell's, as much as we welcome it, has a long uphill effort, and therefore we better start it now.

Could you give us the classic reasons why the administration is taking this new direction?

Secretary CALIFANO. Senator, yes.

But let me note with respect to past history on the tuition tax credits, one of the problems has been that there has not been an alternative out there.

Senator JAVITS. I agree with that.

Sectreary CALIFANO. Now, we are putting an alternative out there.

First of all, our view is that the tuition tax credits on the whole indiscriminately provide financial assistance, regardless of need, or regardless of the cost of higher education.

We should not direct relief for educational cost to the very rich. For example, the Roth proposal would provide a quarter of a billion dollars to individuals above the 90th percentile of income in this country for higher education.

The Packwood and Moynihan proposal would provide more than half a billion dollars to individuals above the 90th percentile. Those, as Congressman Brademas I think noted before, those are expenditures just as sure as appropriations is expenditure.

Second, just across the board they can be enormously expensive. Higher education price tag on Packwood and Moynihan is $4.4 billion. We think that it fragments the education policy by having different committees and by having that kind of educational resources come in from one committee, higher education, and other educational sources coming in from another, and chairman Ford noted in the House that the House just last year or so had put all its education programs under the Labor and Education Committee so that they could be looked at.

This would take a substantial amount of money that would be going to higher education, and I think would be bad policy, bad structure for which the Congress and in which the Congress would be postured, be set out, developed educational policy.

Since we do not think tuition tax credits meet the need of some families, especially those with higher than median income, that above $15,000, whose problem in many cases is a problem of getting enough cash at the time.

It is a liquidity problem, It is not a tax credit problem. And only giving him $250, $500 is not going to solve their problem. They need enough money to pay tuition and some kinds of interest rate that is bearable when the school is over.

Last, we think the tax credits are very blunt and inflexible kind of instrument. One great blessing of the Pell grant program is that there is flexibility in which the grant can be changed in relationship to the cost of college and also in relationship to other changes in terms of family contribution schedules.

You lose all of that. You have to come up with legislation to make that kind of a judgment.

Last, a point that chairman Ford made, which is that there has been great concern in the higher education community about regulations that the Veterans' Administration has issued about what a full-time student is and what have you, which do not recognize and is not sensitive to the needs of that community.

If you get a tax credit, you would have a whole set of Internal Revenue Service regulations, a whole new Government agency moving in with another massive bureaucracy in this country with their definitions of what the course of study was, what a full-time student was, et cetera, in the context in order to qualify for that tax credit.

I think that makes bad public policy sense from the executive side as it does from the legislative side.

Those are, in brief, the points I wanted to make.

Senator JAVITS. Mr. Secretary, just to sharpen one of the points, that is what you said about congressional committees.

Is it not a fact that—and this has motivated me—that if you give a tax credit, which almost is equal to the aggregate amount which the Federal Government contributes to the support of higher education, it is bound to result in a major reduction in the support of higher education or it is bound to result in a major increase in tuition at colleges and universities which are concerned, and it just doubles right back on itself, and we will be met with demands next for $8 billion instead of $4 billion.

Secretary CALIFANO. Senator, absolutely, and that is exactly the way—as you well know from all your experience—that is exactly the way budget bureaus analyze these issues. That is exactly the way the President making up his budget is forced to go.

In the current context, I think I ought to make another general point. The President has recommended a $25 billion tax cut for American people. A tremendous proportion of which is going to low-income Americans, and the Congress will be operating on that tax cut over the next couple of months, and they are in agreement there has to be massive tax cuts, and middle-income Americans will receive benefits in that direction based on the kind of considerations that are relevant to how you handle tax laws.

Senator JAVITS. You said something about the 90th percentile.

Is $45,000 below or above?

Secretary CALIFANO. Above. And $25,000 takes us to the 90th percentile in this country.

Senator JAVITS. That is an important consideration.

I hope we will adjust our sights on that. That worries me, that situation. I hope we will adjust our sights accordingly.

Thank you very much, Mr. Secretary.

Secretary CALIFANO. Thank you, Senator.

You have been one of the great fighters for education and on this tax credit issue, and I for one appreciate it.

Mr. PERKINS. Mr. Shuster.

Mr. SHUSTER. Mr. Secretary, I do not think there are any Members of Congress that have spent more years in institutions of higher learning than I have.

I served as trustee of one of the large universities in this country. I have a very deep and abiding interest in the quality of higher education.

I strongly support aid to poor bright students because I think no bright student should be denied a higher education because his parents cannot afford to send him.

Having said all of that, I have a few questions I would like to put to you—I have 21 questions I would like to submit to you and request you answer in writing——

Secretary Califano. I will.

Mr. SHUSTER. I respectfully request, if possible, before our hearings begin in the House next week, that I have the answers.

Secretary CALIFANO. Absolutely, unless the computers break down over there.

[The questions with accompanying answers follow:]

QUESTIONS SUBMITTED BY CONGRESSMAN SHUSTER

1. The Administration bill guarantees a $250 basic grant for all families with incomes of $25,000 and below. Why is this more equitable than a tax credit which would be structured to phase out at that income level?

Funds will be received by students at the institution when they are needed, not as a reduction of taxes paid in the year after expenses have occurred. Students' grants can be packaged with other assistance if needed.

We will be looking at ways to put the guarantee recipients on a need basis during the reauthorization process.

2. About 270,000 students at incomes of below $13,000 would be able to qualify for a full $1800 basic grant next year under current law. As I understand it, the new proposal would mean that these students would actually lose more under this new proposal if the program is not fully funded. Is that true and if so, isn't that a major flaw in the proposal?

Under our proposal, aid would be increased for most students including the lower middle income students. Low and lower middle students would not be affected differently than they were before at less than full funding -- depending on the amount of reduction, of course. It should be noted that total demand for the program will be increased but the reduction language is more favorable to students with higher awards, i.e., greater need.

3. How many people are now employed in the Bureau of Student Assistance? How many new employees will be required to administer this new proposal? What is the average grade level and salary for employees of the Bureau?

Number of employees in BSFA 779

BSFA authorized staff ceiling 1,042

Average grade 7.9

Average salary $16,575

No new employees will be required to administer the new proposal over those authorized.

4. While a candidate for President, Mr. Carter pledged in a letter to Rev. Russell Bleich of the Catholic Administrators that he was firmly committed to finding methods of providing aid to parents whose children attend parochial schools. Since tax credits provide that kind of aid why are we backing away from it?

The President in his statement of support for nonpublic schools did not specify what approaches he would use. We do not believe that a tax credit is the best approach. He also emphasized the use of a "constitutional" approach and there is still serious doubt as to whether tax credits would be constitutiona.

Beyond that, however, all of our support programs to date, whether at the elementary and secondary or higher education level are based on need or access to specific services. The use of tax credits whether for nonpublic or public schools would move away from that concept and scatter support. Nonpublic school children now participate in a number of programs serving public schools and we intend to see that this participation is broadened to all programs susceptible to this approach. We also plan to place greater emphasis on "equitable" participation to assure that nonpublic school children are getting their fair share of support in programs where they are covered.

5. In 1981 what does the Census Bureau estimate will be the middle income for an urban family of 4? At the $25,000 cut-off, how many families will be excluded from the benefits of this program in that year?

Although the Bureau of the Census does not project family income, we can approximate the median income of an urban family of 4 in 1981 by the following method:

- o Census Bureau statistics indicate the median income of families inside metropolitian area (average size about 4 1/2 people) was $16,000 in 1976.
- o Using estimated increases in the Consumer Price Index we can inflate the 1976 family income figure to arrive at a projected median income of $21,352 for an urban family of 4 1/2 in 19[illegible].
- o Assuming family income keeps pace with inflation (as measured by the CPI) the $21,352 estimated 1981 income is appropriate. However, if income grows faster than prices, the income figure may inflate at a rate of 8 or 9 percent for some years, rather than the CPI inflation rate of approximately 6 percent.
- o A macro model produced by the Office of Economic Growth of the Bureau of Labor Statistics and described in the Monthly Labor Review ("Revised Projections of the U.S. Economy to 1980 and March, 1976) projects a median family income of $24,490 for 1981. No breakdowns by family type or size are available.

Assuming the 1981 projected median family income (as described above) to be $21,000 to $24,500, over half of the Nation's families would fall within the $25,000 BEOG cut-off.

However, it is important to note that "an urban family of 4" may not be the best way to think of the potentially eligible BEOG population. Using figures for families with 18-24 year old dependents, the 1976 median income of $21,918 (from the Bureau of the Census March Current Population Survey) would come to $29,247 in 1981 using the CPI inflator.

6. Why go to all the trouble of having a family file a BEOG application and go through the cost of processing when the same purpose could be accomplished by adding one line on an IRS 1040 form?

Many [illegible] from upper income families already apply -- current year 4 million total filers of which 62% are eligible so at least 1.5 million would file in any case. Most other families under $25,000 apply for aid from one of the other OE programs through a need analysis agency. These students would have BEOG eligibility calculated automatically and would not need to file another application.

It is not clear that a tax credit would be so simple since enrollment status would need to be determined, possibly verified, through the IRS process and the institutions.

7. How much does it cost to process each BEOG application? How many new applications do you expect? ____ That means that just in the cost of processing -- not to mention providing the forms and then administering the program -- this program will cost $ ____.

The current processing cost per application is $1.25.

While an additional administrative funds will be required for FY 1979, the cost of administering the Basic Grant Program will increase by $6.0 million in 1979 because of increased volume in the regular program inflation, and the inclusion of the guarantee.

8. Why does all of the new money for campus-based programs go to the work-study program? Why not allocate some of that $150 million to the Supplemental Grant Program and/or the State Student Incentive Grant Program?

College Work-Study is an effective student assistance program for middle-income students. It combines tuition assistance with relevant work experience. About 22% of the funds now expended under the program

go to students from families with incomes over $16,000, and under our proposal this proportion will increase to 75%. Also, it is the lower of Federal campus-based aid because institutions are required to match 25 cents for every Federal dollar.

We have not overlooked these other programs. As I said in my testimony we may, as part of next year's reauthorization effort, suggest more detailed changes in these and other programs.

9. Since the State Incentive Grant requires State matching, wouldn't it be true that an extra $100 million in that program would generate $200 million in total aid?

Under the SSIG program, a new Federal dollar does not necessarily generate a new State dollar. Presently, States which have been in the program some time can count the increases they have made in their program since 1972 as "matching." For that reason, many have already met future matching requirements and have no incentive to increase State appropriations. In fact, we have noted with some concern that, in certain large programs, State appropriations have remained stable the past several years even with the increased appropriations for SSIG. Such is not the case, however, in those States with programs begun after 1972. We estimate that an increase of $100 million in SSIG would only result in an increase of 17 million in new State dollars. Because of this problem we have decided to delay increasing the SSIG appropriation until 1980, when we will be able to address the issue as part of the reauthorization.

10. How does this new package treat private college students as opposed to those in public schools? What percentage of the new dollars will go to students in those institutions. What percentage of dollars under the existing programs go to those students?

Our new 1979 proposal will be advantageous to private college students. They are well represented in the middle income groups--those that receive the bulk of our new support. As a result many will be newly eligible for Basic Grants and College Work Study assistance. We cannot accurately estimate the extent of their new participation by type of school at this time, but we anticipate that private college students will receive at least 20% of the total $5.2 billion student assistance proposal. This is a conservative estimate which assumes that the public/private distribution for each program does not change between 1978 and 1979.

[illegible]

Students now awarded work-study on the basis of demonstrated financial need will, for that reason, be authorized to earn a fixed total amount. The higher the student's wage, the sooner that amount will be earned. An increase in the minimum wage should not harm students, but it will cause a problem for some employers who will get less work done for the same investment. However, institutions for whom this creates a serious difficulty may apply for permission to pay subminimum wages.

17. With respect to GPL, why the increase to $40,000? How many families will be kept from assistance at that level? Given that at $40,000 the program will reach about 98 percent of all families, why not remove the needs test altogether and get rid of an enormous amount of paperwork and aggravation? What would be the added cost of removing the ceiling altogether?

We are proposing to increase the Adjusted Family Income ceiling to $40,000 in order to make it possible for upper middle income families to receive some assistance in a manner more effective than a tax credit. Families in this category do face liquidity problems as we pointed out in our response to question.

An undergraduate could receive an average interest grant of $426 per year in addition to total loans of up to $7,500. Approximately 362,170 families with students in postsecondary education have over $40,000 adjusted family income. Based on current participation rates, about 54,325 might be expected to apply for loans. Students from these families would not be kept from getting loans, they simply would not be eligible for the Federal interest subsidy. Removal of the ceiling would cost approximately nine million dollars in FY 1979 over our current proposal. If the ceiling were removed, interest subsidies would be given to the very wealthiest families -- those with clearly no need for the benefits. This can be seen as a loss in distributional equity, as well as a waste of the taxpayers' money. Also, because banks like to make subsidized loans (which require less paperwork), and they also like to make loans to the best credit risks, eliminating the ceiling may result in capital flowing away from the needier families.

13. One of the Administration's criticisms of tax credit proposals is that colleges and universities might be encouraged to raise tuition by a like amount. With respect to this criticism, what difference is there between your current proposal and a tax credit that phases out at $25,000 income?

As I said during the joint hearing the issue of tuition pressure would be better addressed to the representatives of colleges and universities. The Administration has no empirical evidence upon which

to base any estimates of the probability of $250 tuition increase. However, one point can be made with some certainty, the broader the coverage of a tuition tax credit proposal, the greater the likelihood that the cost of education will increase as a result.

14. Why does a student coming from a $12,000 family qualify for a $1,030 BEOG when there is one wage earner and $1,525 when there are two wage earners?

Program includes an additional offset of $1500 for cases when both parents are employed to recognize the increased living costs caused by this situation. We believe that this increases the equity of the formula used to determine eligibility.

15. In your previous statement yesterday, you criticized tax credits because it would "provide financial assistance regardless of either family income or actual costs." Since the proposal also guarantees a $250 grant to a $25,000 family regardless of actual costs, isn't the same criticism appropriate?

Since families with incomes above $25,000 do not receive the $250 it is income-related. We will explore during reauthorization techniques for improving the needs test for the $250 guarantee.

16. Isn't the real reason the proposal has been developed is because of the problem of protecting jurisdictional territories on the Hill and programs in the executive branch? What other reason is there for using a complex bureaucracy to do what a simple amendment to form 1040 will accomplish equally as well?

The real reason the proposal has been developed is to provide the most efficient and effective means of providing assistance to needy students from middle-income families.

17. Isn't it possible to design a tax credit that will do exactly what this proposal does--and at the same cost?

While it theoretically possible to do so, there are absolutely no advantages to doing so.

18. Since a good part of education policy lies in the jurisdiction of Ways and Means and Finance how would the enactment of tax credits serve to further fragment education policy?

Enactment of tuition tax credits would create a new form of educational assistance under the jurisdiction of the House Ways and Means and Senate Finance Committee, which would substantially overlap with the many existing educational assistance programs under the jurisdiction of the House Education and Labor and Senate Human Resources Committees. The creation of another new form of assistance under the jurisdiction of committees not directly responsible for education policy could only serve to further fragment education policy.

19. What evidence do you have that families with incomes above the median would prefer loans to a tax credit as claimed in your statement yesterday?

While a grant may be preferred to a loan by most families, none of the tax credit proposals are as effective as our loan proposal for middle income students. A $250 tax credit does nothing for a family facing costs of $24,000 over a four year period for sending one student through a high cost school. Under our proposal, a family of four with an adjusted income of $40,000 ($47,000 gross) would be eligible for a subsidized guaranteed loan. For example, if an undergraduate borrowed the $7,500 presently allowed over four years, the government would have paid the 7% interest for the student while in school and during the nine month grace period after graduation. This would amount to a Federal

grant of $1,70[illegible] for the entire period, or an average of $426 per school year. In addition, the student would have had access to a meaningful amount of money to help pay the cost of education. At the same time the individual would have received help with a portion of the liquidity problem presented by the $24,000 in costs through the 10 years available for repayment.

20. From the last page of your statement yesterday, do I gather that if Congress enacts a tax credit the Administration would accept that as an alternative to this package?

If the Congress were to enact a tuition tax credit, the Administration will not press for enactment of our proposed middle-income student aid initiative. However, should the Congress enact the Administration's proposal, a tuition tax credit would clearly not be needed.

21. Given the fact that private schools only receive about 20 percent of BEOG benefits versus 35 percent in SEOG and CWS and 38 percent in NDSL, wouldn't this package be better from your perspective if it were more balanced among the various programs?

Our judgment was that the most efficient way of directly assisting middle income students was through changes in the Basic Grants, College Work-Study, and Guaranteed Student Loan Programs.

As I said in my testimony, we have not overlooked these other programs, and may suggest more detailed changes during the reauthorization process next year.

Mr. SHUSTER. There are two questions.

First of all, am I accurate in my understanding that I as a Member of Congress, making $57,500 a year with five children, who are either in college or on their way to college, if I had no other outside income, and pay 22 percent tax rate, and had my seven exemptions, my wife and I, my children qualify for this free loan?

In the sense of five of them, it means the Shuster family can borrow interest free from the Federal Government $12,000 a year? Is that true?

Secretary CALIFANO. If your adjusted family income is below $40,000, you would be eligible for the interest subsidy under the loan program. How much you could borrow in a given year I would have to let you know.

Mr. SHUSTER. It is not really adjusted gross——

Secretary CALIFANO. It is not interest free. It is interest free while you are in school and subsidized——

Mr. SHUSTER. Yes; I understand.

It is not adjusted gross, the staff tells me; it is income as adjusted by the——

Secretary CALIFANO. No, no. The $45,000 figure is adjusted gross for a hypothetical family. The $40,000 figure is the adjusted family income ceiling.

Mr. SHUSTER. I am informed by the staff that that is not accurate.

Secretary CALIFANO. Maybe they can resolve that later.

Mr. SHUSTER. I will not quibble over a few thousand.

The point I am making is based on this calculation that a Member of Congress, that I as a Member of Congress with five kids, if I do not have any other outside income, can get up to $12,500 a year interest free, and if that is not middle-class welfare, I do not know what is.

I would appreciate your staff looking at this and verifying the precise calculation.

Secretary CALIFANO. If I may comment.

I think it is the time and indeed we may be overdue in some respects to provide help to the middle-class individual in this country in this area. I think the burdens——

Mr. SHUSTER. I understand your position.

Secretary CALIFANO. If you have $45,000 or $40,000 income, and you have got three or four of those kids in college, and they are walloping out $20,000 a year to pay for that, I think you deserve some help.

Mr. SHUSTER. I understand your position.

Let me get to my next and last question.

First, I am informed by the Library of Congress that—well, let me say you testified that we have had since 1967, to 1976, 77 percent in the cost of higher education. I am informed by the Library of Congress during this same period one measures inflation based on the cost of living, cost-of-living increase is slightly over 70 percent.

Now, if America had not experienced this 70-percent, inflation would you agree that educational costs would not have escalated these 77 percent and indeed would be 7 or 10 or 15 percent, some small part of it, the point being that inflation is the culprit, the single biggest part of the culprit with this 77-percent cost escalation to which you referred in your testimony?

Secretary CALIFANO. If the country had not—if the last 15 years had not passed, we would not have the prices we have now.

Mr. SHUSTER. Do you agree that——

Secretary CALIFANO. It is not that simple.

Mr. SHUSTER. Do you agree that inflation is the single most significant culprit here in increasing higher education costs by 77 percent between 1967 and 1976?

Secretary CALIFANO. The reason I hesitate to answer is because I do not know the extent to which some other things have become involved there.

We have built a tremendous number of community colleges over that period of time, there have been tremendous changes in plant and equipment.

Mr. SHUSTER. Sure; there have been other factors.

That is not the only factor.

Secretary CALIFANO. Those things increased cost.

Mr. SHUSTER. Would not any reasonable man agree that——

Secretary CALIFANO. Well, one of the most significant elements, absolutely, of the increase in cost.

Mr. SHUSTER. Would you not agree with me that the overriding long term reason we have inflation is because of the enormous continous deficit spending by this Government under both the Republican and Democratic administrations?

Secretary CALIFANO. On that I would disagree strongly.

Mr. SHUSTER. We have a basic disagreement.

Thank you very much.

Mr. FORD. I would like to observe that we did some computations and it comes as a disappointment to your children, but you do not qualify for a student loan.

You do not even come close because the figure we have, at least in our bill, is $40,000 adjusted family income. The figure the Secretary used in his statement was an estimate of what the gross family income which would generally be talking about a family of four, I assume, that would qualify. Actually the family with five children—family of seven would qualify at a much higher figure than a family of four. Even with your five children, with your salary, if you have nothing outside of your congressional salary, you cannot make it.

Mr. SHUSTER. Will the gentleman yield?

That is your bill.

Mr. FORD. Yes.

Mr. SHUSTER. That is not the proposal.

Mr. FORD. Yes; it is.

At least in that one respect, we have adopted the administration's proposal exactly in our bill, and all we simply do is change a number from $25,000 to $40,000 in existing law and the number refers to adjusted family income to qualify students for subsidized loans.

And that is an adjusted family income of $40,000 but obviously the family size——

Mr. SHUSTER. If the gentleman would yield; it is $40,000, and if the Member of Congress has an income of $57,500, and if he pays Federal income tax, 22 percent bracket, that is $12,650, and subtract that from $57,500, and he has seven exemptions and you subtract that from $57,500, and that takes you to $39,000.

Mr. FORD. But the regulations are not quite that generous.

As I understand it, your regulation provides that arbitrarily you take 10 percent off the gross and then you take $750 a head for each dependent. You are figuring what would happen in the real world where you are paying in fact 25-percent tax rate, but the method by which they adjust the income in the regulation section of the law assumes a flat 10-percent tax rate, and takes it right off the top without any deductions, which is not quite as generous, particularly for somebody with a big family.

Mr. SHUSTER. So someone under these circumstances will only qualify if they made about $52,000 a year.

Mr. FORD. With five children, yes.

Mr. SCHUSTER. Someone making $52,000 a year, a super grade, for example, would qualify.

Mr. FORD. With two children they could only make $45,000, and that is where I think the $45,000 figure comes from.

Mr. SHUSTER. I thank my friend for clarifying this point.

I still make my point. I think this is middle-class welfare.

Mr. FORD. You frightened me.

Following my experience in handling the pay raise legislation last year, I discovered the surest way to kill anything in the House would be to make the House Members and their families eligible for it.

You had me scared to death there for a moment.

Mr. PERKINS. Do any other Members on the House side have anything further?

If not, let me say to you, Mr. Secretary, that in my judgment there are just a few discrepancies that need to be cleared up, and the committees and the Congress can move along expeditiously.

I certainly want to compliment you on your testimony. It has been most enlightening. I think you have done a wonderful job in explaining the whole program.

Secretary CALIFANO. Thank you, Mr. Chairman.

Mr. FORD. Mr. Chairman, I would like to thank Chairman Pell and Chairman Williams for extending our committee the invitation to participate with them in this joint meeting here.

We have a number of college presidents that our committee had invited, Mr. Chairman, to testify before the House committee who have patiently waited and we are going to adjourn from this room to room 2175, Rayburn Building, where we will convene in 15 minutes.

Thank you, sir.

Senator PELL. On the Senate side, we are adjourned.

[Whereupon, at 12:46 p.m., the joint committee hearing was adjourned.]

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